ROYAL COMMISSION ON INDIAN CURRENCY AND FINANCE.

VOL. IV.

MINUTES OF EVIDENCE

TAKEN IN INDIA

BEFORE THE

ROYAL COMMISSION

Indian Currency and Finance.

LONDON:
PRINTED & PUBLISHED BY HIS MAJESTY'S STATIONERY OFFICE.
To be purchased directly from H.M. STATIONERY OFFICE at the following addresses:
Adastral House, Kingsway, London, W.C.2; 28, Abingdon Street, London, S.W.1;
York Street, Manchester; 1, St. Andrew's Crescent, Cardiff;
or 120, George Street, Edinburgh;
or through any Bookseller.
1926

Price 10s. Net.

ROYAL COMMISSION ON INDIAN CURRENCY AND FINANCE.

LIST OF WITNESSES EXAMINED.

Date.	Name.	Pages of Evidence.
November 24th, 25th, 26th, 1925.	The Hon. Sir BASIL P. BLACKETT, K.C.B., Finance Member of the Governor General's Executive Council.	3–49
November 26th, 1925	The Hon. Mr. A. C. MCWATTERS, C.I.E., I.C.S., Secretary to the Government of India, Finance Department.	50–67
November 27th, 30th, 1925.	Mr. H. DENNING, I.C.S., Controller of the Currency	68–99
December 1st, 1925 ...	Lieut.-Col. G. H. WILLIS, C.I.E., M.V.O., Senior Mint Master and Master, Security Printing, India.	100–109
December 2nd, 1925...	Dr. PRAPHULLACHANDRA BASU, Vice-Principal, Holkar College, Indore ...	110–122
December 2nd, 1925...	Mr. H. L. CHABLANI, Head of the Department of Economics, University of Delhi.	122–135
December 3rd, 1925...	Mr. B. G. BHATNAGAR, University of Allahabad	136–145
December 4th, 1925...	Mr. GYAN CHAND, M.A., Professor of Economics, Benares Hindu University	145–162
December 7th, 1925...	Messrs. V. A GRANTHAM and H. A. W. BRENT, representing the Chamber of Commerce, Bombay.	162–177
December 8th, 1925...	Mr. B. F. MADON, Bombay	177–204
December 9th, 1925...	Mr. C. N. VAKIL, Professor in the School of Economics and Sociology, University of Bombay.	204–220
December 9th, 1925...	Messrs. P. A. WADIA and G. N. JOSHI, Professors of Economics, Wilson College, Bombay.	221–231
December 10th, 1925	Messrs. B. F. MADON and LALJI NARANJI, representing the Indian Merchants' Chamber, Bombay.	232–246
December 10th, 1925	Messrs. KIKABHAI PREMCHAND and MANECKLAL PREMCHAND, Partners, Messrs. Premchand, Roychand & Sons, Bullion, Exchange and Finance Brokers, Bombay.	246–253
December 11th, 1925	Mr. PHIROZESHAH M. DALAL, of Messrs. Merwanjee & Sons, Exchange, Finance and Bullion Brokers, Bombay.	253–266
December 11th, 1925	Sir VICTOR SASSOON, representing the Millowners' Association, Bombay ...	266–274
December 14th, 1925	Dr. BALKRISHNA, Principal, Rajaram College, Kolhapur	274–286
December 14th, 1925	Mr. J. A. WADIA, of Bombay	286–297
December 15th, 1925	Mr. GORDHANDAS PATEL, representing the Millowners' Association Ahmedabad.	297–313
December 15th, 1925	Dr. B. R. AMBEDKAR, Bar-at-law, Bombay	313–322
December 16th, 1925	Messrs. SHIVPRATAP JOSHI, RAMCHANDRA BAID, and UMASHANKER DIKSHIT, representing the Marwari Chamber of Commerce, Bombay.	323–332
December 16th, 1925	Mr. CHUNILAL MEHTA, Stock and Bullion Broker, Bombay	332–336
December 16th, 1925	The Hon. Mr. H. S. LAWRENCE, C.S.I., I.C.S., Finance Member, Government of Bombay.	336–342
December 21st, 1925	Dr. PROMATHANATH BANERJEA, Calcutta University	342–355
December 21st, 1925	Mr. VENKATAPATIRAJU, C.I.E., M.L.A., Vizagapatam	356–363
December 22nd, 1925	Mr. B. RAMACHANDRA RAU, Calcutta University	364–373
December 22nd, 1925	Mr. J. C. SINHA, Professor of Economics, Dacca University	374–381
December 23rd, 1925	Messrs. KENNETH CAMPBELL and F. V. RUSHFORTH, representing the Bengal Chamber of Commerce, Calcutta.	382–397
December 23rd, 1925	Mr. B. CHAKRAVARTI, Bar-at-law, Calcutta	397–400
December 29th, 1925	Mr. D. P. KHAITAN, representing the Indian Chamber of Commerce, Calcutta	401–416
December 29th, 1925	Mr. A. RAMAIYA, High Court Vakil, Madura	416–424
December 30th, 1925	Messrs. RAM KUMAR JALAN and KASTOORMAL BANTHIYA, representing the Marwari Trades Association, Calcutta.	424–435
December 31st, 1925	Mr. K. T. SHAH, University Professor of Economics, University of Bombay...	435–450
January 4th, 1926 ...	Messrs. NALINI RANJAN SARKAR and J. GHOSE, representing the Bengal National Chamber of Commerce, Calcutta.	450–455
January 4th, 1926 ...	Mr. H. STANLEY JEVONS, M.A., I.E.S., University Professor of Economics, University of Rangoon.	455–468
January 5th, 1926 ...	Mr. NORMAN MURRAY, Managing Governor of the Imperial Bank of India ...	469–480
January 5th, 1926 ...	Mr. T. K. DURAISWAMI AIYER, University Professor of Economics, University of Madras.	480–489
January 6th, 7th, 1926	The Hon. Sir BASIL P. BLACKETT, K.C.B., K.C.S.I., Finance Member of the Governor General's Executive Council.	489–522
January 8th, 1926 ...	Mr. C. J. HAMILTON, M.A., University Professor of Economics, University of Patna.	523–537

MINUTES OF EVIDENCE

TAKEN BEFORE THE

ROYAL COMMISSION ON INDIAN CURRENCY AND FINANCE

AT THE IMPERIAL SECRETARIAT, DELHI.

FIRST DAY.

Tuesday, November 24th, 1925.

PRESENT:

THE RIGHT HON. EDWARD HILTON YOUNG, P.C., D.S.O., D.S.C., M.P. (*Chairman*).

Sir RAJENDRANATH MOOKERJEE, K.C.I.E., K.C.V.O.
Sir NOROOT HASTINGS YEELES WARREN, K.C.I.E.
Sir REGINALD ARTHUR MANT, K.C.I.E., C.S.I.
Sir HENRY STRAKOSCH, K.B.E.
Sir ALEXANDER ROBERTSON MURRAY, C.B.E.
Sir PURSHOTAMDAS THAKURDAS, C.I.E., M.B.E., M.L.A.
Professor JAHANGIR COOVERJEE COYAJEE.
Mr. WILLIAM EDWARD PRESTON.

Mr. A. V. V. AIYAR, C.I.E.
Mr. G. H. BAXTER.
} (*Secretaries.*)

The Hon'ble Sir BASIL P. BLACKETT, K.C.B., called and examined.

1. (*Chairman.*) For the sake of our records, Sir Basil, your present position is that of Finance Member of the Viceroy's Council?—Yes, since January, 1923.

2. And, before that, you were Controller of Finance at the British Treasury?—Yes, since 1919.

3. And during that period you were engaged on many special Missions in connection with the international aspects of British finance?—Yes.

4. We have had the great advantage of a series of very full memoranda from you and from the officials of your Department which will save a great deal of time in developing the matters into which we desire to inquire. I would ask you in the first place one question upon the very full memorandum on the recent history of Indian currency supplied to us. We are perhaps interested in this only in so far as it casts light upon the future. I observe that you refer in the beginning of your own memorandum on the Indian currency system to the Government's policy in regard to controlling the available supply of currency. This is dealt with in the historical memorandum, but would you be so good as to tell us in broad outline what has been the general policy as to controlling the available supply of currency since the abandonment of the effort to fix the rupee at 2s.?—May I preface my remarks before answering that question by a statement of the capacity in which I am giving evidence? I wish it to be clearly understood that I do not appear to speak for the Government of India. I appear to speak simply as Sir Basil Blackett. The Government of India have not made themselves responsible for any of these memoranda. Naturally as a member of the Government I am in a position to say something about the views which the Government have held, but I am not in a position to say that any particular views that may be expressed by me are or are not at the present time the views of the Government of India.

5. I think that will be quite clear to the Commission?—Turning to the question that was asked, the position of course is specially known to me since January, 1923. The question I think relates to the action that has been taken by the Government of India since the time when it became evident that the effort to fix the rupee at 2s. in accordance with the recommendations of the Babington-Smith Committee had broken down. During the first period, after that was recognised, the chief anxiety of the Government was to recover control of the situation and prevent the necessity for continued additions to the currency and the resulting inflation of the kind that has been prominent in the history of the currency of some of the European countries since 1919. The Government were faced with the difficulty that they had a Budget with a very considerable deficit balance and a very large amount of early maturing debt or floating debt to be continually renewed. Their first effort was to raise money both in England and in India with which to pay their way and to reduce the amount of their floating debt. Fortunately, the seasons were good, and by April, 1923, they had succeeded in balancing their Budget, and by April, 1924, they had got rid of their floating debt, that is, Treasury Bills and ways and means advances. Meanwhile, owing to the general fall in prices throughout the world, there had been a considerable redundancy of currency in India, and it had been possible by various means to reduce the outstanding amount of circulating medium in India. But the exchange value of the rupee had fallen during that period as low as 1s. $2\frac{5}{16}$d. sterling, the lowest that it ever fell to in terms of sterling, though at one stage actually below 1s. gold. The figures are given in Appendix VII of the historical memorandum. It will be seen that in the middle of the year 1921 at a time when sterling was very considerably depreciated in terms of gold the value of the rupee, for example, in July, 1921, was 11 9/32d. in terms of gold.

As sterling improved, the rupee tended to improve with it, and as good monsoons or fair monsoons continued, by January, 1923, the rate of 1s. 4d. sterling was reached, and except, I think, on one day in August of that year, it never fell again below 1s. 4d. sterling, but it was not until October, 1924, that it reached the figure of 1s. 4d. gold. The steps taken by the Government of India during that period to assist the recovery of the value of the currency, which of course was immensely assisted by the world conditions and by good monsoons in India, were first of all to bring about a considerable contraction in the currency by paying off some of the Treasury Bills held in the Paper Currency Reserve and cancelling currency and by cancelling currency against sterling securities. The Government itself was able rather fortunately to finance a large part of its sterling liabilities during that period by means of repayments from the War Office in respect of war transactions of various kinds, so that an unusually large amount of sterling was available in London without remittance. In addition, big loans were raised in London in 1921, 1922 and in 1923. The last sterling loan was raised in May, 1923, for £20 million. Since that date, not only has no additional sterling borrowing taken place, but there has been some actual reduction in the sterling debt owing to the operation of sinking funds. After August, 1923, no further contraction of the currency has been found possible or desirable. The money market was very tight all through the busy season of 1923-24, and during that period additions were made to the currency against sterling to the tune of—well, the net amount during that year was about 6 crores, but the amount actually added during the winter was about 12 crores, because there had been a cancellation of some five or six crores in the previous summer. In addition, the system of allowing the Imperial Bank to borrow from the Currency Reserve against Hundis was brought into effective operation, and the whole of the 12 crores, to which figure the maximum had been raised from five crores by an Act of the Legislature in the summer of 1923, was borrowed. The result was satisfactory from the point of view of the busy season of 1924-25, when money was generally very much easier, but during that winter again some six crores were added to the currency by additions to the sterling securities. The action of the Government may, therefore, be said during that period to have been to control the expansion of currency by keeping a very strict hold over the amount of additions to the currency.

6. May I summarise it in this way by saying that natural causes—good monsoons, and so on—were tending to raise the value of the rupee during the whole of this period?—Yes.

7. And, so far as the Government was able to do it through the currency machine, the policy at first was to encourage the rise by putting on the currency brake until August, 1923?—Yes, the policy up till August, 1923, was to encourage the natural tendency to a rise by effecting some actual contraction of the currency which had been very considerably redundant after the war. After August, 1923, it was to check the tendency to further rise by making some additions to the currency.

8. One more supplementary question: is that process still continuing at the present time? In other words, do you feel that natural forces are still at work tending to a rise in the rupee exchange?—There is no means in the Indian currency system at present, so long as the sovereign is valued at 2s., for an automatic expansion of the currency. Its expansion depends on the action of the Government; and at the present moment, exchange being strong, there would be a natural inflow of gold under an automatic system, and the Government are effecting some additions to the currency.

9. I do not think I made myself quite clear. The last statement is what I intended to get at. I think you answered my question when you said that the exchange is still strong?—Yes.

10. And the Government are adding to the currency?—We have added three crores, I think, since the end of September against sterling, the object of that being to assist the situation in the market so far as necessary and to prevent exchange for the time being rising above what would be the gold par value at 1s. 6d. The difficulty of course always in dealing with this sort of question in India is that you do not really know, in the absence of an automatic currency system, what amount of additional currency it is safe to add during the winter until you are aware of the nature of the monsoon the following year.

11. (*Chairman.*) That is the last question I wanted to ask you on the historical aspect. Before putting the next question as regards policy which I was going to ask, I do not know if any member of the Commission has any supplementary question upon that historical aspect with which we are dealing.

12. (*Sir Henry Strakosch.*) As regards the contraction of the currency up to August, 1923, was it merely due to doing away with the inflational portion of the currency?—It is not easy, I think, to measure the extent to which the additions that were made to the currency during and immediately after the war had an inflationary effect and to what extent they were natural, but I should say that up to August, 1923, nothing more was being done than taking away what was redundant currency. The fact that exchange was continually below 1s. 4d. gold during that period indicates that currency was redundant.

13. (*Chairman.*) I now pass on to the next heading —the question as to what should be the policy as regards the stabilisation of the rupee, in regard to which we have also had the advantage of a memorandum from Mr. McWatters. Naturally, the first question we have to ask ourselves is whether the time has come to stabilise. Will you be so good in answering that question to consider in particular what possible influences have to be dealt with such as might make themselves felt in the foreseeable future as affecting general gold prices throughout the world. I have in mind in particular the influences which might be exerted by a change of the monetary policy in the United States, resulting in an alteration of the supply of gold available?—The effect of stabilisation in terms of gold must necessarily mean that, subject to the necessary qualifications, Indian prices will tend to follow the movements of world prices; and if the United States were to go in for a policy of a considerable expansion of credit, which they easily could do if they desired to on the basis of the gold that they have got, the result would naturally be a very considerable rise in world prices and consequently in Indian prices; and until other countries were on a gold basis, it seemed to the Government of India to be rather risky to tie India to the chariot wheel of the Federal Reserve Board, the phrase I used on one occasion, to tie India down to follow blindly the upward or downward movements in gold; but now that the United Kingdom, the British Dominions other than India and several of the countries on the Continent of Europe, including Germany, are on a gold basis, it does not seem probable to me at any rate that the United States would go in for a policy that would have the effect of a very considerable rise in prices; and there would be a check on any such rise owing to the outflow of gold to the other gold standard countries if they took steps to try and prevent a corresponding rise in their own prices, so that gold would be better distributed throughout the world and the effect of the action of one country would be less violent. It is, of course, a danger at any time, if you are on a gold basis, that the policy of some predominant partner may seriously affect your own position, but to answer your original question, it does seem to me that the time has come when it is safe to accept the risks of being tied to gold for the sake of the great advantages of stability of exchange.

14. Various awaited events have now occurred which made it desirable to wait, such as the return

of sterling to parity with gold; is any other event of the sort foreseeable for which it might be said that it would still be desirable to wait?—It would, of course, make everyone in the world a little happier about the future of prices if all the inter-Allied debts were settled, and France had safely arrived at Budget equilibrium and stability of exchange, but I think the big events that have recently happened, such as the return of Germany to gold, the return of the United Kingdom to gold and the temporary settlement of the reparation problems are of very great importance, and there is no single event to look forward to that would be of an importance comparable with the return of England to a gold basis.

15. I gather then it is your view that, as far as it is possible to foresee, the present time is as favourable a time as we are likely to have?—No one is at any time able to prophesy what the future of prices would be, but there is very much more prospect to my mind of a relative stability than there has been until recently.

16. (*Sir Reginald Mant.*) I have only one point to put: it is possibly an argument for stabilisation at present that if you do not stabilise, the rate of exchange will practically depend on the action of the Government?—So long as the monsoons are good in India, the rate must necessarily depend on the action of the Government in increasing the currency or not in accordance with the demands. If you had, on the other hand, a series of bad monsoons, there would be a considerable risk of exchange falling unless the Government took reasonable steps to contract the currency. The needs are subject to the operation of natural causes, but the Government has become the main factor on the question of the relation of the demand for currency to its supply, and until this Commission takes some action in any direction, that responsibility rests mainly with the Finance Department of the Government of India and the India Office.

17. You practically have to put some arbitrary upper limit?—Yes. We have really been in that position for the last year and more. When in October 1924, the rupee reached the parity of 1s. 4d. gold it was obvious that unless there was some definite action by the Government at that stage it might go up considerably further and this was leading to immense anticipatory demands for rupees which would have driven it in October, 1924, very quickly up to 1s. 7d. or 1s. 8d. sterling, though it probably might not have stayed there. The Government therefore thought they had to come to some temporary decision in the general interests of India, and the decision they came to was for the time being, that is last winter, to take such action as was necessary to prevent exchange going further above 1s. 6d. sterling. It was not announced as a policy, but it was actually followed and it has had the effect of preventing what would have been a considerable rise in the rupee and it was entirely up to the Government to take that decision, whether or not they wanted to stabilise and without reference to their undertaking to have a general inquiry before final action was taken.

18. (*Chairman.*) If it were decided that the time of ultimate stabilisation had not arisen, would you still think it would be necessary to fix on some temporary figure?—Yes; unless Government does something of that sort, you will have exchange driven up in a period like last October, by anticipatory demands, and possibly driven down again in the slack season, with very large fluctuations which would be independent of the movement of world prices. You would get neither stability of exchange nor stability of prices.

19. That would be very undesirable?—In my view very undesirable.

20. Sir Reginald's point is that you must take some measures to avoid violent fluctuations?—Yes, there is some responsibility on the Government at present which it cannot avoid.

21. And if you are to take measures to avoid fluctuations you must have some conventional point to which you should approximate?—Yes, you may change the conventional point from time to time; of course that would disturb business a good deal, but you must have some conventional point to which you are working.

22. Otherwise you cannot even tell what the fluctuation will be?—Quite.

23. (*Sir Purshotamdas Thakurdas.*) With regard to the legislation of 1920 which fixed the statutory value of the rupee at 2s., don't you think that also is an impediment until some decision is arrived at to have some other fixed rate?—There must be some rate on the Statute Book. The impediment is not so much that it is two shillings on the Statute, but that there is not an effective ratio on the Statute Book. Until you decide what the effective ratio is to be, you cannot very well alter the Statute.

24. That is what I meant, that an ineffective ratio also necessitates a temporary decision as to some point at which Government have to stabilise exchange?—Unless you adopt the view that your aim is to get back to the two shillings rate. If the Government had adopted the view that the aim was to get back to the two shillings rate their natural policy would have been not to make any additions to the currency at all in spite of the stringency of 1923-24, and the stringency that would have occurred in 1924-25.

25. But Government having declared a couple of years back that they do not aim at 2s., makes it necessary that a change should now be made as early as possible?—It makes it most important that there should be some decision.

26. (*Chairman.*) The next question I have to ask you is of central importance. Have Indian prices adjusted themselves to equilibrium with world prices at the present rate of round about 1s. 6d., or is there any reason to expect any substantial change in the relative values of Indian and world prices before such equilibrium is attained?—That question of course is a difficult one to answer. My own view is that there has been a very considerable adjustment of prices, though probably some more ought to come. If you will take the index numbers of prices in Great Britain, United States and in India at the present time—

27. May I ask if you are referring to any particular document before you when you speak on this point?—There are some figures in the historical memorandum. I thought I had later figures, but I don't think I have them here at the moment. Broadly speaking the level of prices is now at about 160 as compared with 100 in the pre-war days. British, American and Indian prices have come together at a figure about 160, which compares with a very different state of things a couple of years ago, say on the 1st of January, 1924, when the position was as follows:—

British	173
American	151
Indian	172

But I am not quite sure what value is really to be attached to any of these index numbers and particularly to the Indian one. It is hard to be sure that it is completely valid. At the same time it does suggest that prices have now come together and if an explanation is wanted as to the reason why with the rupee at 1s. 6d. now instead of 1s. 4d before the war, the rise should be much the same in India as in other gold standard countries, I think the answer is that there has been a very considerable development in the Indian tariff which would naturally raise the Indian figure. With exchange at 1s. 4d. as it was pre-war you would have expected Indian prices to be nearer 180. You will have really to multiply the Indian figure by 18/16 to get the proper comparison with pre-war figures, if you assume that the purchasing power of the rupee has accommodated itself to the rise from 1s. 4d.

to 1s. 6d. Generally speaking, there has been a very considerable readjustment of prices in the course of the last year. You will see that there is a considerable fall in Indian prices under certain heads when you get into details. I am inclined to think that there has been very little fall, if any, in wages. On the other hand there has been, as far as I can make out, a very definite tendency for Indian wages to rise since the end of the war. The level of real wages at the end of the war may probably have been lower in India than it was in the beginning because wages have gone up more slowly than prices —and there is a slight increase year by year in money wages. I have not got figures here, but I believe the Bombay Labour Office have got figures, and I should think the Commission could get them later. The money wages would show a natural tendency to go up all the time and the probability is that the rise in exchange has rather tended to prevent a further increase in money wages than to bring about a fall in money wages.

28. Are there any general statistics available with regard to the rates of wages and prices?—There are some statistics, the most elaborate of them are kept in the Bombay Labour Office, but I have never felt very confident of what the real value of these statistics is. In individual cases, no doubt, they are quite good, but when it comes to a general index number, for the whole of India or even for a large province, where the conditions are so different from one place to another, one rather doubts how far they are completely applicable. My general impression, however, is that most of the readjustments due to the movement in exchange since 1922 have now been effected.

29. As far as I can see, the index numbers to which you call attention are in steady approximation with those of other countries like the United States and Great Britain, and within what one might expect as reasonable limits of error in the index number they seem to show a present equality. In some figures supplied by the India Office in their memorandum No. 2, Appendix II, you will observe that between the India exported articles and India imported articles, there is a difference to a marked degree, the rise in the case of Indian imported articles being relatively greater throughout?—You mean by India imported articles which are imported into India?

30. Yes. I wish to know what would account for this difference?—I do not know whether the tariff has been taken into account. The tariff would account for a good deal, but not, I think, for the whole. Of course four good monsoons have tended to keep the prices of Indian food-grains and other agricultural produce, probably with the exception of wheat and cotton, down. I do not think that I can answer the question as to the special reason why the India imported articles throughout show a higher figure.

31. No doubt some of it may be attributed to the very large relative rise in cotton manufactures? —Very probably: cotton of course has been throughout the world very high.

32. In the memorandum No. 2, para. 2 (*c*), it shows the highest figure?—Yes.

33. But at any rate this difference between the relative level of imported and exported articles does not suggest to you any lack of adjustment or any lack of equilibrium in Indian prices in relation to world prices?—I think not. Probably it is more the lack of equilibrium not yet adjusted in world prices themselves.

34. One observes that India exported articles are mostly raw materials and India imported articles mostly manufactured articles?—Yes.

35. The tendency is for a greater rise in raw materials than in manufactured articles throughout the world: that is a statistical fact?—Yes.

36. (*Sir Alexander Murray.*) Since 1923 there has been very little change in the relative difference?—Yes; but the index numbers for both imported and exported articles were 100 in 1913.

37. (*Chairman.*) Sir Alexander's observations are material as showing that at present the difference is being maintained constantly?—Probably with the reduction in prices of imported cotton goods, the difference would be very much reduced.

38. (*Sir Reginald Mant.*) Is it not a fact that the same thing has taken place all over the world, that the price of agricultural produce has not risen to the same extent as the prices of manufactured articles, and that this has caused difficulties in all agricultural countries?—I believe it is a general world factor: in the United States, *e.g.*, I think it is a fact that the relative position of the farmer has been, with the exception of one or two recent seasons, rather worse than it was before the war. I do not think it is peculiar to India.

39. (*Sir Henry Strakosch.*) How do you account for the fact that the cost of living and retail prices in India are on a par with the United States and the United Kingdom prices, whereas the wholesale prices are still something like 11 and 11½ per cent. above the level of the United Kingdom and United States prices? The Indian indices are converted at the rate of 1s. 6d. gold?—You get the cost of living figure here. I see here for July in Bombay it is 157 as against 100 in 1914, whereas in the United Kingdom it is 173 against 100. If you multiply 116 by 18/16 you get about 177 or 178.

40. The same applies to retail figures?—I confess always to a considerable hesitation in accepting the full value of any of these costs of living figures in any country, and I have never been quite certain as to their correctness or how far they correctly give you a picture of the facts. But over a long period the comparison is a just one; it does seem in that case that there has been a complete readjustment to the present exchange position.

41. (*Sir Purshotamdas Thakurdas.*) You said that there has been very little fall in wages—if any thing a rise—since 1923. Also that there has been a fall in the values of raw materials exported from India. Practically there has been, therefore, a reduction in the value available to the grower—the grower has to pay the same wages in 1924-25 as in 1921-22 and owing to the fall in prices therefore he has received less on the production of his raw material?—To some extent perhaps: but since 1900 there has been a regular tendency to increase in wages in India irrespective of the movement of world prices. Presumably it is really an indication of a gradual improvement in the conditions of the labourer. Whether the effect has been improvement in work or not I do not know.

42. If you take the figures of any ten years you find that the rise in wages has been more than made up for by the rise in the value of the raw material?—I do not think so. I think there has been a general tendency for an improvement in the real wage of the labourer.

43. With simultaneous improvement in the value of the raw material?—There may have been an improvement in his outturn. But the increase in wages has been irrespective of any change in the prices. Of course between 1914 and 1920 there has been a considerable reduction in the real wage because the increase of prices was not, at any rate in the earlier part, anything like compensated by the increase in money wages. The position has been reversed since 1920.

44. And therefore you say there has been a reduction from 1914 to 1924?—I think the real wage is higher all over India than it was in 1914. But in 1920 the real wage was probably lower than in 1914, because there had been a very steep rise in prices and there had not been a correspondingly steep rise in wages.

45. The rise had come on after 1920 more definitely?—Yes in real wages.

46. At any rate it was felt by the public more definitely since 1920?—Yes.

47. You would not agree that the result of the reduction in the prices has already been a reduction in the net return to the grower because the wage has remained the same as, say, in 1920 or 1921?—Of course a great many growers do not pay wages.

48. Those of them that do—those who have to cultivate by the acre and have to pay wages—the reduction in prices has meant to them a net reduction in return because they have had to pay the same wage?—I think you ought to take the whole period from 1914 to 1925 together in dealing with this because there have been movements up and down during the period, and I think there is always a tendency for a steep movement in prices to leave money wages behind—wages come along more slowly; changes in the rates are more slow; if you go back to 1914 I think it is probably true that the real wage of the labourer is higher now than it was in 1914; if prices are exactly the same proportionately it is a logical deduction that the wages are a larger element in the total cost of production than they were in 1914; but as against that you have the question whether the improvement in wages which had been going on before the war, and may presumably go on still, is resulting in an improved outturn.

49. Do you think that since 1921 there has been any improvement in outturn also in agriculture?—I do not know. But I suggest that the continual tendency in India for slow improvement in real wages is probably paralleled by a slight improvement in outturn.

50. Thus making up for the increased cost to the cultivator?—That is what one would hope.

51. (*Sir Purshotamdas Thakurdas.*) That is a matter for investigation, of course?

51A. (*Chairman.*) Index numbers are not wholly reliable. Is there any other source of information which you can suggest that would throw light upon the question of the adjustment of Indian prices to world prices at the present level of exchange?—One has, of course, general indications. There are examples here and there in the recent reports of the Tariff Board in regard to the cost of production of things like steel, paper, and so on, some of which are quite interesting, and there are further reports coming out—dealing with investigations by the Tariff Board—into claims for protection of particular industries, such as steel, cement, paper, and so on. The earlier reports did not, I think, as a rule say much on the subject except to assume that if a certain amount of protection is required at 1s. 4d., you need 18/16 of it at 1s. 6d.; but the later reports have gone in some detail into the matter and shown to what extent in certain cases the rise in exchange has been compensated by a fall in the cost of materials, and what proportion of the cost has been modified by the rise in exchange. Then I suppose you could get some information from the Commerce Department or the Director General of Commercial Intelligence.

52. (*Sir Henry Strakosch.*) Arising from that, do you not think that it would be advisable that some authority should undertake to produce regularly some scientifically constructed index figures?—It is most urgent *desideratum*. Some of the members of the Commission know that a special committee was sitting recently on the subject of a general economic inquiry. They at any rate show that it will be very costly, and also some of the difficulties in getting reliable statistics, and one has to remember that India is a large continent, and a general index number for India is not always a satisfactory indication of particular conditions. But I agree entirely that some very much better statistics than we have got at present, if they could be got, would be most desirable.

53. (*Chairman.*) To continue the next step, let me put the supposition that some other level were adopted than the presnt ruling level of exchange. By what methods could exchange be raised or lowered to whatever different level were selected?—This matter is dealt with in the memorandum on stabilisation of exchange, and I am not sure there is very much that one can add to that. So long as the present conditions continue, where there is a large surplus of Indian exports over Indian imports, the action of the Government in adding or not adding to the currency would no doubt be fairly effective unless it caused so much stringency as to bring about a disaster. An effort to raise the exchange at the present moment, e.g. from 1s. 6d. to 1s. 8d., would involve very considerable readjustment of prices, and you would have to try to force that readjustment by making the rupee scarce. It would be a very uncomfortable period for a good many people unless, as happened a year ago, it happened to coincide with a general rise in world prices, in which case you would have the same level of prices in India. You would then by raising the exchange keep the same level of prices instead of rising with the world prices.

54. I gather you can only do that under certain conditions?—You can only do that if you have had a good season, and there is the further complication that one does not know how far the import of gold on private account may tend to make any effort to make the rupees scarce ineffective.

55. You tell us that evil consequences are probably to be feared from monetary stringency?—Industrial difficulties and, of course, possibly strikes owing to efforts to reduce wages.

56. And a general impediment of the export trade?—Probably, unless there was a corresponding movement in the world prices, an impediment to the export trade.

57. Now, turning to the other side of the picture, the possible lowering of the rate, let me ask you in particular, in your opinion will it be easy to stop the fall of the chosen rate?—Not unless you had some more definite system of doing it than we have at the present moment. If you are willing to give gold for rupees or rupees for gold, or rupees for exchange or exchange for rupees, at a fixed rate, the contraction that would be required or the expansion that would be required would become more or less automatic instead of being subject to the fiats of a Government department. But I think that you are always, as I said before, in this difficulty, that there are risks in expansion of currency in the busy season in India because you do not know what the nature of the next monsoon is going to be, or the amount of the corresponding contraction required in the slack season.

58. In the memorandum on exchange at page 7, dealing with this position of the attainment of a lower rate, a description is given of how the rate would fall, and Mr. M. C. Watters continues: " There is always a considerable amount of latent demand for remittance to England, and if the decision to adopt a lower rate were announced, remitters would at once endeavour to obtain the best price for rupees. The tide would then turn the other way, and there would be a very large demand for rupees at the new rate. This would have to be met by additions to the currency." How could that be checked?—I think you would have to be prepared to give currency in exchange for sterling without limit. Of course it would depend on any other decisions as regards the nature of your reserve, but if you are prepared to buy exchange without limit at, say, 1s. 4⅛d., assuming the par-rate to be 1s. 4d., or whatever the exact gold import point might be, and use the sterling that you get for these rupees as cover to add securities to the currency reserve, and pay the rupees out here by additions to the curreney, you can, I think, meet all demands that way from a technical point of view. Undoubtedly there are always difficulties that you may overdo it and create a boom by that action, and cause later on a slump when the reverse process has to take place.

59. Might I put it in this way, that it might possibly lead to a series of rather violent fluctuations?—It would probably lead to one or two big swings before the pendulum swung at all even or came to a standstill.

60. Just to complete the picture of this hypothesis of the adoption of some new rate, higher or lower, can you tell us what would be the effects of this process upon the people, dividing them for this purpose into the creditor and debtor class, and looking upon the situation from the point of view internally of the exporter and externally of the importer. Let us consider first of all the financial effects upon them of the change in rate either up or down. There are a good many alternatives, and perhaps we cannot contemplate them all. Let us take, first, the possibility of a higher rate?—I assume that a higher rate would mean a corresponding reduction in prices. One must make that assumption to consider the thing logically. The effect presumably, for example, of a 1s. 8d. rupee would be to cause a fall in commodity prices to something like 18-20ths of the present position.

61. What would be the social and political effects of such a fall?—It means from the point of view of the debtor that his existing money debt becomes a larger one in terms of commodities. It means in the case of the creditor that his credit is worth more in terms of commodities than it was before. From the point of view of the wage-earner it is equivalent to an increase in real wages by means that are not as obvious either to him or to his employer as perhaps a direct increase would be. It would probably lead—almost certainly at the present time in view of the recent fall in Indian prices—it would lead to a considerable pressure in some industries, to an actual reduction in wages and possibly a strike. On the other hand it would mean that all those on fixed salaries or those who received customary wages—a great many wage-earners — would be better off in terms of real wages. Its effect, I think, would be worse on the Indian industrialist who is in competition with foreign imports, particularly such industries as the steel industry and the engineering industries generally, which are comparatively a new feature in India, and on the cotton mill industry. It would probably mean a considerable increase in the demand for protection already given and in our protective tariffs—though the effect, of course, would be presumably only temporary, and you may assume that within a comparatively short period of time most of the readjustments would take place; but there are some which take a long time, such as, for example, the rates for postage stamps or railway fares. They are not always brought down or brought up very quickly following on a change of this sort. Then there is the land revenue. There, of course, one really wants to take a very long view because it changes very slowly. A settlement is made usually once in thirty years, leaving out the permanent settlements; and in that case you have had such big changes in the last 11 or 12 years that one change more, as the effect of 1s. 8d., for example, would still leave the land revenue payer relatively better off than in 1914 because prices have gone up to such an extent that he has been paying a less amount of commodities: the land revenue has been worth less in terms of commodities in most cases, than was intended at the time of the settlement. It would take thirty years for the land revenue to be readjusted generally throughout India.

62. Is thirty years the average period of a land revenue settlement?—Sir Reginald Mant could probably give a better answer than I could.

63. (*Sir Reginald Mant.*) It is not the average; it is rather the maximum. Sometimes new settlements are made at shorter periods.

64. (*Chairman.*) What proportion of the land revenue is under a settlement of this sort?—I have not got figures.

65. We can obtain them from another witness?—Yes. The effect, of course, on the Government, both upon the local budgets and the Central budget, would be a considerable reduction in the rupee payment required to meet external charges and presumably that would enable either a remission of taxation to be made or provincial contribution to be further reduced.

66. Would that be a permanent effect?—No. But it is sufficiently long to justify the Government acting on the assumption that it will reappear budget by budget for a sufficient period to justify your using the surplus that comes in that way for immediate remission.

67. And, conversely, its effect on the importer, as compared with the Indian manufacturer?—Naturally a readjustment takes place; the rate of exchange has been raised, and therefore the amount of sterling or other local currency that the exporter from another country gets for the goods he sends here, is increased without increasing the rupee price, it makes India therefore a good place to sell in for the time being.

68. Hence the demand for increased tariffs?—Yes.

69. And on the exporter?—The exporter from India is getting less rupees for his exports, and until readjustment takes place those rupees do not go so far as the larger amount of rupees that he got before, so that he is for the time being worse off.

70. Then turning to the possibility of the selection of a lower rate, what would the effect of that be upon the population of the country, taken as creditor and debtor, and viewed with particular reference to the wage-earner and agriculturist?—Broadly speaking, it is just exactly the converse of what I said except that in the case of the Government it would mean presumably that the Government would have to make it up at once by extra taxation.

71. That, again, might be counteracted by gradual readjustment?—It may ultimately, but you would have to act at once if you wanted to avoid a series of deficits in the budget.

72. And the effect upon the exporter and importer would also be the converse?—It might. There is always the danger that it may encourage under-production or over-production and bring about undesirable results in that way.

73. Which will have that effect?—A fall in the exchange may, of course, lead to a boom which would mean over-production of particular articles. A rise in the exchange may lead to a boom in imports which may lead to overstocking and the difficulties arising therefrom.

74. I think that exhausts the various alternatives?—One is necessarily speaking in a rather theoretical atmosphere in answer to hypothetical questions of this sort; so much depends on the exact circumstances of the moment at which these changes are taking place.

75. Your contention is that if you select a higher rate of exchange and that coincided with a bad year, the gravest difficulties might be encountered?—You would have to use up a large amount of your sterling reserves for the purposes of making the new rate effective and it might take really a long time to make the rate effective, if you had a series of bad monsoons. On the other hand, if you have a good monsoon and good trade, you do risk very severe stringency.

76. (*Sir Henry Strakosch.*) I think you were dealing with the evil effects of the adjustment which has to take place between internal and external prices on any change from the point at which internal and external prices have already adjusted themselves?—Broadly speaking, from 1914, there has been a continual adjustment owing to the vagaries of world prices and world exchanges and currency policies all over the world; we have, as I see it, been trying to remedy those mal-adjustments, and in India we have had for over a year now stability in the exchange at 1s. 6d. sterling and for nearly a year stability at 1s. 6d. gold. During the last year there has undoubtedly been a considerable movement in the direction of remedying the previously existing maladjustments, and they are not yet complete. Any change from the present rate therefore must mean setting up a new series of maladjustments, which will take some little time to

remedy, and means continuing instability as between internal and external prices.

77. What is the effect of a new basis on the long term creditor and debtor?—Of course, if it is a contract not subject in any way to revision and if prices remain unchanged, an increase in the rate of exchange must mean that the creditor gets a larger commodity value for what he lent and the debtor has to pay a larger amount by way of interest and repayment of the principal. But the difficulty in this case seems to be that not only have you had very frequent changes in the rates of exchange since 1914, but you have had very large changes in prices during that period, and you have had a change in prices from 1900 to 1914 all over the world which in itself was something of a revolution in favour of the debtor. Prices during that period rose 10 or 15 per cent. at least; so that it is perfectly impossible to suppose that you can arrive at a solution which will do absolute justice both to the creditor and the debtor at the present moment.

78. That is to say, at no point could justice be done to the long term debtor or creditor?—It is quite impossible unless you regard very strictly the terms of his contract which was to pay a certain amount of money without reference to what that is worth, which is, I suppose, the legal assumption.

79. (*Prof. Coyajee.*) It has been argued that the higher rate of exchange—the rise from 1s. 4d. to 1s. 6d.—and the consequent fall in prices has been very injurious to the Indian agriculturists. What is your view of the matter?—As I have said in answer to a previous question, I think you have to take this over a long term. The rate of 1s. 4d. gold was not in force for more than a month during 1924. It is a rise if you go back to the lowest point from something under a shilling to 1s. 6d. in terms of gold. In terms of sterling it has been different. Similarly there had been a considerable fall previously. If you go back further it is a fall of exchange. So that it is rather difficult to start at 1s. 4d. and say the rise from 1s. 6d. has had particular effects. I think it was the Babington-Smith Committee's Report which had about 10 paragraphs dealing fairly exhaustively with this argument. The conclusions are not very definite, and it is difficult to come to any conclusion in any particular case which is valid for anything more than that particular case. I do not think you can take the agriculturist simply from the point of view of what he gets for his produce. In so far as he produces a surplus, he wants to spend that surplus, and what really interests him is what amount of commodities he gets for that surplus.

80. So that the fall of prices is beneficial mainly to the big agriculturist?—It is beneficial to the consumer generally.

81. The big agriculturist is a consumer?—Everybody is a consumer.

82. (*Sir Henry Strakosch.*) But only during the period of maladjustment?—Yes.

83. (*Prof. Coyajee.*) We recently saw that the rise in agricultural prices produced agrarian unrest in the Punjab?—It was, I think, rather fortunate from the point of view of the Punjab last year that there was a rise in exchange, because there was a temporary rise in food grains, particularly wheat, in spite of the rise of exchange, which would have been much more if it had not been for the rise of exchange, and even with that rise there was a certain amount of agrarian unrest.

84. As regards the financial position of the Government of India in repaying the sterling debt, is a rise in the rate of exchange beneficial?—It is beneficial in this sense that it reduces the number of rupees required; but as it is a part of the hypothesis that as soon as readjustments have taken place a smaller number of rupees has the same commodity value as the previous larger number, the commodity value of the payments that have to be made in the United Kingdom is not finally altered.

85. (*Sir Purshotamdas Thakurdas.*) Regarding the land revenue, any rise in exchange practically means that the Central Government prevents the Local Governments from having their share in the increase of prices to the extent of the difference between the two exchanges?—I do not quite follow.

86. That is, whenever there is a rise in exchange the provincial Government get, to the extent of that rise in exchange, less advantage of the rise in prices on raw commodities?—If there is a rise in exchange, the Provincial Government get the same amount.

87. I will illustrate it. Suppose the last settlement in the Punjab was on the basis of, we will say, Rs. 200 for cotton. Cotton prices go up to Rs. 300 before the next settlement comes on, and but for the rate of exchange (1s. 8d.) Rs. 300 can be available to the grower. To the extent of that extra Rs. 100 which the Provincial Government would be able to tax the cultivator at the time of settlement, the rise in exchange has to be discounted. Is it not so?—That is thirty years afterwards. You have to look at it this way. What interests the Government is the purchasing power of the rupee that it gets. It presumably gets the commodity value out of the land revenue as fixed thirty years hence equal to what it would have done if the exchange had been different.

88. Would you agree that thirty years hence the reduction does happen?—Thirty years later it may fix the land revenue in that particular instance at a different figure and a lower figure than it would have done but for the rise in exchange. That is, it fixes the land revenue thirty years later at a smaller number of rupees; but those rupees would have a larger purchasing power than they would have had if the exchange had not gone up. So that the Provincial Government is getting exactly the same commodity value out of the land revenue as before.

89. Therefore the smaller number of rupees that the Provincial Government gets does not matter to it?—Not at that stage.

90. Now that period of thirty years may come on a year hence or, say, in 1928 or 1930. For, the settlements are not uniform all over India. For instance, in Bombay, they go on revising the settlement in one district or other practically every year?—It is not any single period of thirty years. The particular district will be reassessed every thirty years.

91. Therefore, in a particular place, a bunch of districts may fall within the next five years?—Yes.

92. In that particular case, will it not be a hardship on the Provincial Government?—It may possibly be in the first year when the adjustments have not yet taken place to the extent justified by the rise in exchange. But probably by the second or third year there will be very little in it. Meanwhile several of these Provincial Governments would have as a matter of practice had a very large reduction of their provincial contributions as a result of the rise in exchange, enabling the Government of India to reduce the provincial contributions.

93. The Government of India are committed to reducing them whenever they had a surplus. Suppose something else had brought in a surplus, irrespective of the rise in exchange?—It is really the change in prices that is ultimately of importance rather than the change in exchange. It is, broadly speaking, the reduction in prices generally after the war that has brought down the total expenditure of Government, apart from the definite retrenchment activities and things of that sort; but a reduction of prices is only another aspect of a rise in exchange.

94. And a reduction of prices brought about by a rise in exchange does mean, to that extent, a loss to Provincial Governments in their agricultural revenue settlements?—I do not admit that there is any real loss.

95. I would like to understand that if I may?—I admit there may possibly be a slight "loss," to use that particular word, in the first or second year. But meanwhile you may say that there has been a considerable loss to the Central Government owing to the fact that prices have come down roughly from 200 since the Meston Settlement to 160 now, and the Provincial Governments have got the benefit of the whole of that.

96. Would there be a clash to that extent in the interests of the local Governments and the Central Governmont?—I do not think there is any real clash of interests in the matter.

97. Suppose a Presidency, for instance, Bombay, has an income of six crores from land revenue and the land settlement for, say, four of their important districts fell due before 1929. Would that not be a material handicap to that Presidency?—I believe it would be negligible, and meanwhile they would be getting advantage to the extent of a slight reduction in prices brought about by the rise in exchange. And their revenue might go further than it did before.

98. Suppose an important article is concerned?—Even then.

99. Owing to the lower range of prices?—Yes.

100. I do not know, Mr. Chairman, if Sir Basil is prepared to answer, but I want to know whether the Government of India in the Finance Department had any communication from the Provincial Governments on the particular aspect of land revenue?—I have no objection whatever to answer. I have certainly heard nothing about it. I do not think we have had any official correspondence with any Provincial Government on the subject of the rate of exchange. But unofficially, they have all been, I think, delighted with the results of the improved position of the Central Government and the reduction in prices which enabled them to improve their Budget position.

101. That is as far as provincial contribution?—Yes, and their general position.

102. In connection with their land revenue settlement, have they made any representation?—No.

103. (*Sir Reginald Mant.*) May I take the discussion a stage further. I think you may take it that any Provincial Government aims at a continuous process of resettlement. It has to keep its establishment evenly employed. Taking 30 years as the normal period of settlement, we might for purposes of our discussion assume that the average settlement has 15 years to run in judging the effect of a rise in exchange?—It is normally 30 years, so that 30 years is the average and not 15.

104. In any case, the average settlement has a considerable period to run, a large unexpired period, and during that period does not a local Government benefit by a rise in exchange?—Certainly.

105. Would not this gain on account of the rise in exchange be greater than the loss just now indicated? —The loss is very hypothetical in any case, because as a matter of fact the tendency is, as a rule, to raise the assessment at each revision and there is a limit on the money amount. Let us take it there is a rise in the exchange: the fall in prices makes it a little bit easier to raise the money assessment to the full quota than it would otherwise, so that the loss is in any case hypothetical. I entirely agree with Sir Reginald Mant that if during the 15 years under this hypothesis prices are lower, and they are getting the same land revenue as before, the Provincial Government are gaining as the result of the rise in exchange.

106. In fact they are in the position of any long-term creditor?—Yes. Of course, broadly speaking, owing to the movements of prices and of the exchange during the last 20 years, the land revenue payer has been better off than he was intended to be and the Provincial Governments have in fact lost over that.

107. In discussing the effects of alteration in the rates of exchange, you assume the stability of external prices?—Yes.

108. If prices were to rise generally as was experienced last year, the effect you describe on internal prices would not follow if exchange were allowed to rise. In fact there was a considerable rise in exchange last year without a corresponding depression in internal prices?—If there were to be a steady or a large rise in world prices, you might theoretically do what we did during 1924. But I would point out that it has been largely reversed in 1925. What we did in 1924 was to let the exchange absorb the shock rather than the prices. Instead of the prices going up by 12 per cent., we let the exchange go up by 12 per cent.. and prices remained stable. Theoretically you can do that, of course.

109. Suppose we stabilise now and there was a subsequent considerable rise in world prices; the prices in India would naturally rise also?—Yes.

110. Do you anticipate agrarian difficulties then?—One hopes for reasonable stability of prices from the point of view of social and political contentment, because changes of prices, particularly rises in prices, do tend to cause unrest.

111. Would you say that the prices of food grains are as high as they can safely be allowed to go?—The prices of food grains are low in comparison to other prices at the present time in India mainly as a result of a succession of good monsoons. I do not think that even wheat is high in proportion to some other prices.

112. You do not think it is near the safety margin? —It has been higher than that, has not it? But there has been trouble and I think it is undesirable that there should be any large rise in the price of wheat.

113. That is bound to follow if there was a large rise in the world price?—If the rupee is stabilised in terms of gold, Indian prices must inevitably tend to follow world prices and to suffer a considerable rise if there is a considerable rise in world prices. That is unavoidable.

114. Do you anticipate a change in the world prices?—The Chairman put a similar question and I gave the best answer that I thought of at the time. One really cannot say. My inclination has been for some time to expect a fall rather than a rise. A considerable fall has taken place.

115. (*Sir Purshotamdas Thakurdas.*) Taking the converse: when the world prices go down, what would you do to absorb the shock?—You can do it over again; you can make the exchange again absorb it. That is what had happened during the period from 1919 to 1922. The exchange was absorbing the shock and preventing the large fall in Indian prices that would otherwise have taken place, so that the movement in Indian prices was a great deal less than the movement in world prices. It was after all exactly that point that led to the breakdown of the attempt to work the Babington-Smith Committee's proposals. The historical memorandum, first paragraph of Section 15, says: "In March, 1920, in view of the large sales of Reverse councils which the Secretary of State was unable to meet entirely from his Treasury balances, he was compelled to begin solling out the sterling securities in the Paper Currency Reserve. In the absence of special legislation permitting increased investments in Indian securities, it would have been necessary to cancel notes to the full rupee equivalent of the sterling socurities sold." And it was not done. Exchange was allowed to absorb the shock instead of prices. That was the point at which the attempt to enforce the Babington-Smith Committee's proposals broke down.

116. When it is a question of stabilisation of exchange at a point for a number of years, would you expect the same change to come on, namely, exchange absorbing the shock of lower prices?—If you decide on stabilisation of the exchange value of the rupee, you give up the power to use the exchange as shock absorber.

117. And therefore at that point this question arises whether the price level here is sufficient to

ensure to the grower a living wage?—I do not think you can make much permanent difference to the position of the grower or anybody else by choosing one rate of exchange rather than another. You may make a short temporary difference to him and that is all. That is my view.

118. When the commodity prices of other articles are higher than the difference in prices of food grains? Referring to Mr. McWatters' memorandum (App. 4, page 40), even in view of these figures, I understand you would say that the prices for the cereals and pulses at 128 and 138 should be considered to be quite sufficient?—I said in particular in the case of wheat only, that I would see objection to any very large rise.

119. What about cereals and pulses?—I have no doubt that the moment there is anything in the nature of a poor monsoon, those prices will rise.

120. Taking a normal monsoon and taking a decline in the world prices, as is the case at present with cotton?—Cotton prices have been very exceptionally high. They have been out of adjustment with the world prices.

121. Supposing there was a slump in the prices of other articles, say oil-seeds, cereals and pulses and wheat—you find that wheat did sell at Rs. 3 a maund only last year or the year before, and in fact we did not know what to do with it at that stage. At that stage, you would have no protection for the grower in the shape of the exchange absorbing the shock of lower prices?—That is so. That is the penalty of stability of exchange and necessarily of all stability.

122. And therefore at a time when the question of stabilisation of exchange is under consideration, the question also whether the prices available to the grower are sufficient and do leave a sufficient margin against declining prices later on must be considered? —I do not think that those prices are relevant to the question of what rate you should stabilise at. If it is a fact that one of the permanent results of the war is going to be to leave the agricultural prices lower in relation to manufactured articles than pre-war, that is a world movement which you would not in any way alter by fixing your exchange at 5s. or 1s. *or* half-a-crown. It will be entirely unaffected. You cannot permanently improve the position of the agricultural producer or of anybody else in relation to his fellows by the particular rate of exchange you chose to stabilise at.

123. Take any raw produce country like America, do they devise anything like this for the control of prices in America?—They have been attempting, of course, to control commodity prices through gold and the Genoa Conference recommended that after stabilising in terms of gold, there should be efforts made by co-operation between the central banks of the world to prevent large fluctuations in commodity prices by the management of the gold reserve in such a way as to ease credit when prices were tending to fall and tighten credit when prices were tending to rise.

124. Do I understand that they are doing something on the lines of what is happening in India, namely, control of prices available to the grower by a change in the ratio?—It has nothing to do with the relative position of the agriculturist and the industrialist. It is merely an attempt to try and avoid fluctuations in prices of commodities generally. But when I say it is an attempt, it is a very inchoate one, and one could hardly say that anything much has yet been done in that line. It is in a very early stage.

125. (*Sir Henry Strakosch.*) Is it not a fact that monetary policy is incapable of controlling maladjustment of prices *inter se*?—Entirely so.

126. Therefore, stability of general prices still leaves, under whatever system of currency you may choose, the possibility of wide fluctuations between the prices of one set of goods in relation to the other?—That is so. But at the same time when you have comparative stability of prices generally, the probability of any violent maladjustments between the prices of one kind of commodities and another is probably less than during a period when you have got a general disturbance of prices.

127. Is it not a fact that the dispersion of prices is now gradually tending to adjust itself?—So far as one can see, yes. But it by no means is a necessary postulate that prices of agricultural products will settle down in the same sort of relation to the prices of manufactured articles as they were before the war. There will probably be many large variations in the relative level of particular prices as adjusted, say, in 1935 as compared with 1914.

128. That would become less if the general level of prices is stabilised in terms of gold in most parts of the world?—Yes, though further changes are latent, as between the relative value of one commodity and another. . . . .

129. (*Chairman.*) We have now dealt with the question of a change in the rate by considering the alternatives of raising the rate or lowering the rate: to complete the picture we will deal now with the third alternative, that is the stabilisation of the rate at its present level. We have already cleared the ground to a large extent, but I think it would clear our minds if you would tell us what in your opinion would be the advantages and disadvantages of stabilisation at the present level?—There is always a very strong onus of proof falling on those who wish to change the level from any existing one. If you can assume that there has been even a considerable adjustment to a given level, even if the adjustment has not been completed, there are always very strong reasons for not altering that rate unless you have much stronger reasons for altering it than for not altering it. It is a *de facto* rate and therefore it holds the field. It does not need to defend itself or to disprove the claims of those who say that some other rate is better. It does not need to disprove the claims of those who think some other is better, but to leave them to prove them. The Budget of this year, for instance, is an instance in which an adjustment has been completed. It takes the 1s. 6d. rate: we have made considerable remissions of provincial contributions on the basis of that rate. There is an adjustment which may be said to have been completed. If there is a change in the downward direction, you would either have to take back the provincial contributions that you have given up or to impose some kind of new taxation or at any rate to postpone some remission of taxation that you may have in mind.

130. Then you would say, in the first place, as regards the advantage of stabilisation at the present rate that the present rate is the result of the interplay of natural forces?—Yes.

131. In the second place, the adoption of the present rate avoids the disturbance which was described as attached to either raising or lowering the rate and their attendant dangers?—Yes.

132. Is there any more positive advantage?—There is only one argument that I know of which is positively in favour of one rate rather than another, as between 1s. 4d. or 1s. 8d., and that is the argument connected with the value of the bullion in the rupee. Otherwise I think there is very little to be said in favour of 1s. 6d. as against 1s. 4d. or 1s. 8d. as against 1s. 4d., except that very minor argument that 1s. 4d. makes the anna and the penny of the same value, or that 1s. 8d. makes the sovereign exactly Rs. 12.

133. How much importance do you attach to that? —I think it is just worth mentioning and nothing more. The equivalence of the anna and the penny has some advantages. It is the habit of the ordinary British soldier to treat the anna and the penny as interchangeable for purposes of thinking in rupees, and sometimes if you have penny rates there are considerable complications in accounts. But it is all only just worth mentioning. I may just add for the sake of completeness that a good deal that is

said about the undesirability of the 1s. 6d. rate is really an argument to the effect that the Government of India made a mistake in choosing that particular point to stop at. As was pointed out a little earlier, the Government of India had to do something, to fix on some rate to use temporarily and the rate they fixed on was 1s. 6d. sterling for the time being. The argument that they ought to have fixed on some other is a quite different argument from the argument that they ought now to go back from 1s. 6d. to some other rate. It is often argued that the Government of India did a wrong in fixing on 1s. 6d. and that they ought to have stopped at 1s. 4d. gold. That is brought forward as an argument for going back. Now it has really nothing to do with the argument whether or not the 1s. 6d. rate, the present rate, is or is not desirable to stand at. It involves the undoing of a good deal that has been done in the course of the last year or 18 months.

134. Let us now go back to the point you raised before relating to the price of silver affecting the policy of stabilisation at one rate or another. First of all, as regards the bullion value of the rupee at various rates, figures have been given in paragraph 6 of the memorandum on stabilisation by Mr. McWatters?—The history of the war shows that under the Indian currency system the rupee as unlimited legal tender is completely at the mercy of a rise in silver, so that the bullion value of the silver content of the rupee becomes greater than its currency value. At 1s. 4d., the margin between the bullion value and the currency value is the margin between 43d. and whatever lower figure may be ruling; at present it is about 31d. You have therefore a larger margin at 1s. 6d. It is the only argument that I know—the only absolute argument—in favour of a higher as against a lower exchange or *vice versa*. One certainly does feel more comfortable with that larger margin.

135. The argument there is that the higher the rate of exchange fixed upon, the greater the margin of safety as regards this particular danger?—Yes.

136. What real importance do you attach, for instance, to the additional margin of the difference between 48d. at 1s. 6d. and 54d. at 1s. 8d. in view of the present price of silver? Do you think it is a substantial consideration to be taken into account?—That is a consideration undoubtedly. But I should not regard it as in any way justifying, on that account alone, the very considerable disturbances involved in attempting at the present moment to raise the rate of exchange.

137. What is your view of the future of the silver market?—If I knew more about China, I might have a view. I have always felt that, other things being equal, silver seems recently to have been a very good index of general world prices.

138. Silver prices move at present with general commodity prices?—Yes. Silver is a very good index of general commodity prices since the war.

139. That would lead you not to expect any violent fluctuations in the silver market apart from the movement of general prices?—Unless you get some big, unexpected unloading of silver on the market or unexpected demand for silver such as at present is possibly being caused by the disturbances in China. I should not regard the argument as justifying on its own account an actual change being effected in the *de facto* rate of exchange, whatever it might happen to be—unless it happened to be a shilling, when it would be almost essential either to recoin the rupee or increase its margin of difference.

140. Having a margin of the difference between 33d. and 48d. at 1s. 6d., any additional ease that you would gain by rising to 54d. would not be of first importance?—I do not think either of them are very strong arguments in relation to the others.

141. (*Chairman.*) Have any members any supplementary questions to ask on this point of the price of silver and the rate of exchange.

142. (*Sir Reginald Mant.*) As regards the present level of exchange, I think it would be well to have on record the reasons why the Government of India considered it advisable to stop at 1s. 6d., as there may be criticisms of its policy in adopting this rate?—Well, the time had come when Government must intervene effectively to prevent an unlimited temporary rise, and that decision was taken in October, 1924, at a moment when in the absence of such a decision there would have been, as I said, a very large speculative or anticipatory demand for rupees by people who knew they would want rupees in the course of the busy season and wanted to lay them down before they got too expensive. In the absence of that action there is no doubt that the exchange would have gone to 1s. 7d. or 1s. 8d. even within a few weeks at that time and probably it would have come down with a slump, not necessarily below the figure of 1s. 6d., but would certainly have come down at some time at a later period. You would also have had a repetition of the severe stringency in the money market which had caused a good deal of comment, and legitimate comment, I think, in India the winter before. The Government therefore felt that some action must be taken pending a final decision to prevent a very violent fluctuation in exchange independent of prices during the winter of 1924-25. By the time the winter of 1924-25 had come to an end, the decision had practically been taken to appoint this Commission, and the obvious course to pursue was simply, until this Commission had reported, to do what could be done, given a good monsoon, not to allow any further rise to take place. No action has been taken to prevent a fall because the opportunity for any such action has not arisen. If members would turn to the figures given in the tables in the memorandum, Appendix XI, on the history of the Indian currency system, it will be seen that in September and October, 1924, an enormous amount of sterling was purchased for rupees. On the 9th October, for example, over £2 million were purchased on one day and £2 million were purchased the day before. It is obvious that there was a tremendous demand at that moment which had to be satisfied, and that if it had not been satisfied, there would have been very undesirable speculation in exchange by those who had to lay down rupees during the winter. Something similar occurred this year in September. You will see that on the 29th August we had purchased over £2 million and on the 14th September over a million pounds. At that moment, owing to some feeling of uncertainty as to what the intentions of Government might be, there were the beginnings of an anticipatory rush to lay down rupees in India, which was, as a matter of fact, checked by a statement made by me in answer to a question by Sir Purshotamdas Thakurdas in the Assembly that the present policy of the Government of India was to try and prevent a rise above 1s. 6$\frac{3}{16}$d. We had to take some action, when exchange reached a certain limit, and it was the course of other events rather than any decision of the Government of India that has made a particular rate the effective rate.

143. The exact figure was to a very large extent accident, except that it was 1s. 4d. gold?

144. (*Chairman.*) It was decided rather by external events than by the policy of the Government of India?—It was the moment for intervention because it showed signs of rising indefinitely—at that moment it was going to be just 1s. 4d. gold, the natural point to intervene because it was the pre-war rate. But as the history both of Indian prices and of exchange during last year shows, it is rather sterling than gold on which the rupee has hung.

145. (*Sir Reginald Mant.*) The decision, we may take it, was not based on the merits of the particular rate; it was merely decided to stop at the point that was reached at that moment for the time being. There is another question with regard

to the price of silver. The price of silver has not risen so much in comparison with pre-war prices as general commodities have, has it?—I am not quite sure what the figure was in 1914. It was 22d. or 23d. With 22d. or 23d. pre-war and with 34d. per standard ounce in London now it would be in parity with world prices.

146. The point is whether there is any danger of a permanent rise above the present level owing to the rise not having been so great as in the case of other commodities?—Generally, the demand for silver in the East is very much stimulated the moment it falls seriously below the average level of commodity prices. I should be the last person to claim any capacity to know as to what the price of silver is going to be, but I think it is likely that if it is below commodity prices, perhaps it will tend to move up a little bit.

147. (*Sir Henry Strakosch.*) Due to the fact that the bulk of the silver production is incidental to the production of other metals and that other metals have risen very substantially and their production has been stimulated, is not the supply of silver greater than would otherwise be the case?—I think the supply of silver since the war has been rather exceptionally large owing to the action of so many Governments in melting their old silver and substituting other coin with a lower silver content or coin of some other metal. But some of the countries which have been through the biggest difficulties might adopt a silver coin, which may mean a demand for silver. I understand that the Soviet Government gave or may give an order for silver coin to the British Mint; whether it was carried out or not I do not know.

148. (*Mr. Preston.*) The general world production of course is almost at its highest now, and present figures up to last month show very little set-back on what they were last year, which was almost a record. In so far as the stocks in China go, they are, I think, three times their normal. Really speaking, if you take the position of silver to-day, with large stocks in China pending political developments there, and with the position of the Continental Governments, which really do not permit of their spending money in acquiring silver for coinage, it does not look, on the face of it, as if you need anticipate a rise in silver?—I suppose it is true that the production of silver is high at the present moment, not because of the demand, but because of the high price of lead and zinc.

149. It is almost entirely a bye-product.—But really Mexico and the South American States, who have of late come very prominently into the picture as producers, they are all increasing their outturn, and of course you have also to look at the fact as to whether the rise of wages in America as against the pre-war basis would have any effect on silver prices.

150. (*Sir Henry Strakosch.*) I think I am correct in saying that the bulk of the silver produced is a bye-product. The bulk of the whole world's silver production is, I think, a bye-product of other metals and not originally mined for its own sale, and therefore, as long as the demand for the metals accompanying the silver is high, the chances seem to be that the production of silver will continue high.

151. (*Chairman.*) It looks, from what we have heard, as if there were balancing considerations affecting the silver market as a special market which rather confirms the answer Sir Basil has already given, calling attention to the fact that silver at present moves with the regular commodity market in that way. Are there any supplementary questions to ask upon this aspect of the subject?

152. (*Sir Purshotamdas Thakurdas.*) You say that the 1s. 6d. rate was the point which the Government of India selected at which to stop and that it coincided with 1s. 4d. gold?—It was just at the moment that exchange reached 1s. 6d. that the decision that it was essential to prevent for the time being the running away of the price was taken. Meanwhile the Government of India had to buy a very large amount of sterling and create a very considerable amount of additional currency to prevent it running above the 1s. 6d. sterling figure. It would have meant a very large addition to the Currency if we had taken at that stage 1s. 4d. gold in view of the great uncertainties that existed at that time as to what the future might be. What was wanted was some figure which the market would see as being for the time being the maximum and that figure was a sterling figure inevitably.

153. (*Chairman.*) Now, just a final question on this point, Sir Basil. We have now examined and analysed the relative advantages and disadvantages that will accrue from raising or lowering or maintaining the present rate for stabilisation of the rupee. In your memorandum on the Indian Currency System you assume an 18d. rate as the basis for discussion, and Mr. McWatters in his memorandum expresses finally a preference for the 18d. rate, that is, stabilisation at the present rate, and that in the event of stabilisation at a rate substantially higher or lower, re-adjustments would inevitably be necessary. Do you wish to express any preference for any one of the three alternatives as a result of the considerations which you have discussed to-day?—I quite agree with the memorandum of Mr. McWatters on this point; there appear to be distinct advantages in accepting the present position and retaining the 1s. 6d. rate.

154. And substantially for the reasons stated in that memorandum?—Yes. It is mainly a negative reason; that I see no argument at all, if I may put it as strongly as that, which would justify action being taken to introduce the further upsetting factor of a new rate of exchange into the present conditions.

155. (*Sir Reginald Mant.*) I wish to know if you anticipate any inconvenience in the 1s. 6d. rate not being readily changeable to the sovereign?—It involves of course a recurring decimal of $13{\cdot}\dot{3}$. It would be convenient to have some rate which made the rupee an exact multiple of the sovereign. But there is not very much in it; and if, to get on to totally different considerations, there is an intention to give any kind of gold coin in circulation in India, there are to my mind some advantages in having a rather larger unit than the sovereign because obviously you do not wish to encourage the indiscriminate circulation of gold for its own sake. Therefore a gold coin of somewhat higher value than now might actually be preferable. But it is inconvenient not to have a definite number of rupees going to the sovereign, and it does make it very difficult to say whether it would be desirable to have a sovereign in circulation in India at all and there seems to be some sentimental objection on general Imperial grounds to not having the sovereign legal tender.

156. Are there not two considerations? Firstly, the conversion of sterling into rupees for the accounts in India and secondly the exchanging of the actual sovereign for rupees?—For accounts purposes 1s. 6d. is not at all an inconvenient figure. It means that crore of rupees is £750,000—Rs. 40 for £3 or Rs. 80 for £6. It is quite a convenient figure. Rs. 1,000 for £75. It is not really a troublesome figure to work with.

157. You cannot suggest any other convenient figure in the neighbourhood of 1s. 6d.?—I have myself often thought about it. There is no doubt that 1s. 8d. and 1s. 4d. are more convenient figures than 1s. 6d. But I do not think there is any fraction between 1s. 6d. and 1s. 8d. or 1s. 4d. which gives you a convenient figure.

158. Thirteen rupees to the pound would be an inconvenient figure, besides being unlucky?—I do not think it would be necessarily unlucky. But it involves an extremely awkward fraction—in terms of pence.

159. There is really no convenient figure between 1s. 4d. and 1s. 8d. for that purpose?—No. At the same time for purposes other than coinage 1s. 6d. is not particularly inconvenient. It is almost an impossible figure from the point of view of a sovereign in circulation, but for account purposes would be all

right: a guinea would be just right as a matter of fact.

160. (*Chairman.*) Sir Basil, we have had the advantage of going through your note on the Indian Currency System, also Mr. Denning's note on A Gold Standard policy for India and also a supplementary note written by him on the Transfer of the management of the Paper currency to the Imperial Bank of India. These notes cover a good deal of ground regarding the elementary aspects of the question of the currency policy of India and will save us a good deal of trouble; so that using your note in particular on the Indian Currency System as a basis for questioning I will come straight to the questions which seem to need further elucidation and discussion. The general basis of your note is the analysis of the possibilities of three main alternatives. The three alternatives are a sterling exchange standard, a gold exchange standard and a gold standard. There is one feature common to all the three systems which it might perhaps be most convenient to take first, and that is that under any system you believe it possible to transfer the right of note issue and the management of the paper currency to the Imperial Bank. Let me ask you then, in the first place, what in your opinion would be the advantages of such a transfer and what the disadvantages, if any?—Nothing in the nature of a Central Bank or State Bank for India existed until 1920 and therefore this question of transfer is a new one that has not been before any previous Commission or Committee. But there was before the Chamberlain Commission a proposal that a recommendation should be made for the establishment of a State Bank with a view to improve the currency and financial situation in India; and I think it may not be unfairly said, that, when the Imperial Bank was created, one of the purposes was at any rate the possibility, of the transfer to it of the management of the paper currency. It was a defect of the Indian financial system before the Imperial Bank was created that the Government kept a large portion of its funds in separate treasuries quite away from the banking system of India as a whole, and the creation of the Imperial Bank has enabled a concentration of Government balances in the hands of the Imperial Bank, but perhaps in doing so has drawn into even clearer perspective the divorce between the control of the discount and general monetary policy of India and the control of the issue of the paper currency and of the exchange. The chief advantages to be derived from the management of the note issue by the Imperial Bank are set out in Mr. Denning's memorandum and I think I would endorse them as they stand. Currency and Banking reserves would be under the control of the same authority, the money market could be regulated more effectively and in particular the wide fluctuations in money rates due to seasonal demands for currency, one would hope, could be moderated. That is the main purpose and that is the main advantage. Then there are the further advantages enumerated in (*b*) and (*c*) of this memorandum. The responsibility of Government officials for banking business would be a great deal reduced; and although the Government could not entirely divorce themselves from some control of policy, the day to day management of the monetary resources of the country would be conducted by Bankers and Businessmen with an eye solely to the commercial interests of the country. There would be less danger of high political motives influencing the Banking and Currency Policy of the country in a wrong direction and there would be what is still more important perhaps less inclination or reason to attribute such motives, where they did not exist.

161. Does that complete the tale of Mr. Denning's arguments?—Yes.

162. Taking the first of your advantages, that the concentration of control of currency and credit in one hand is better for the control of the money market and for the avoidance of seasonal fluctuations, will you explain how the transfer of control of currency to the Imperial Bank achieves these results?—The whole of the banking and currency reserves would under the system imagined be under the control of the Imperial Bank; when it found that the market was tight, it would be in a position to create additional currency against either sterling securities or it might be rupee securities and if there was automatic provision that it had to buy sterling without limit at the upper gold point and sell it without limit at the lower gold point, it would be absolutely essential that it should be in control of the resources for doing so.

163. That relates rather to its operations in the exchange market?—Yes, but the internal conditions and the tightness or otherwise of the internal market are nearly always reflected in the conditions of the exchange and there would be no room for the conflict of interests which might arise theoretically at present, as regards the position of Government balances, and their desire to strengthen them by remittance against paper currency, when they had to remit, rather than against their own balances. The only question that would arise with the Imperial Bank would be whether or not it was desirable to allow the currency to increase or whether they should put up the bank rate with a view to controlling the tendency for prices to run away.

164. Putting it generally, concentration of resources in a single hand tends to mobilise them for the purpose of supplying credit, increasing or limiting the supply according to the needs of the market?—I think that it is a fair general way of putting it. There is the internal condition and the external condition which would have to be taken into account together, and there has been a divorce to some extent between the two points of view. Under the new system the Banking and Currency resources would be both freely available to meet both internal and external strain. As things are at present the currency resources are only to a very limited extent available for the purposes of internal strain.

165. You say that the currency reserves are available only to a limited extent?—Those in the gold standard reserve are hardly available at all.

166. The gold standard reserve is not available for internal strain and the currency reserve may not be as available as it might be for external strain?—Or even for an internal strain. If you have a run on a Bank, for example, it means a big demand for currency at a given moment; if the Imperial Bank is in control of the Currency reserves it can regulate its policy with regard to currency with reference to that internal strain. At present, at any rate, you have to get an agreement between the Government and the Bank before the currency policy is directly related to the Bank's internal policy at all.

167. There are really two circumstances to which you refer, as tending to demobilise reserves at present, first, separation of the reserves into two, and, second, the divorcement as to their control from the power which is really not in direct contact with the money market?—There is of course a direct contact between the two, in the fact that the Controller of Currency is an *ex-officio* member of the Central Board of the Bank, but that is only a partial marriage of the two —the Imperial Bank and the Government. It is not a transfer to the Imperial Bank of any of the Government's powers in relation to the currency reserve.

168. So that you are assuming the transfer of management of the reserves to the Imperial Bank, and the unification of the two reserves?—I should like to see that done: I am assuming that at any rate a considerable proportion of the functions which are divided now between the paper currency reserve and the gold standard reserve are thrown on the side of the paper currency reserve and if anything is left for the gold standard reserve, it would be strictly confined to its purpose. But I should like to go beyond that and amalgamate the two altogether. In the memorandum on a Gold Standard for India I think it is assumed that it is impossible or at any rate that it is very difficult to amalgamate the two altogether.

the combined reserves and of the note-issue to a Central Bank. Has any member any supplementary question to ask on this point?

188. (*Mr. Preston.*) To come back to the statement you made a little while ago when India obtained a gold exchange standard in September, 1899, and sovereigns and half sovereigns became legal tender, it was then almost a recognised policy that the gold which was held in the paper currency reserve should always be looked upon as the first line of defence in case of a failure of exchange value and later on with regard to the gold standard reserve which first came into being about 1901 as [illegible] of the profits on coinage in 1900 from that [illegible] till certainly the outbreak of the war it [illegible]s a recognised thing that that Reserve was a specialised reserve for a special purpose and in all the previous Commissions' Reports it has been so looked upon and I do not think they have in any one case even suggested any tampering whatever with that reserve from the original purpose for which it was formed. Do you agree with that?—There has been considerable fluctuation I think in the policy as regards such things as the amount of gold to be kept in the gold standard reserve or the paper currency reserve respectively—the question whether the gold standard reserve should consist largely of gold or whether the gold should be largely in the paper currency reserve. I think I am right in saying that the Chamberlain Commission recommended the holding of gold in the gold standard reserve and the Babington-Smith Committee reversed that recommendation and held that the gold should be kept in the paper currency reserve. If there has been a recognised policy I do not think that it has been absolutely unchanging, and I am not sure that I shall be greatly impressed if it had.

189. Your memory won't then go back to the American crisis of 1907-08?—Yes, I remember it very well.

190. I do not think you were actually on the spot? —I was in the British Treasury at the time.

191. A very great amount of correspondence took place between the Government and the Bengal Chamber of Commerce at that time; many letters passed, and these two points were very strongly emphasised, and I think I am correct when I say that the Government of India fully recognised in the strictest sense that the gold standard reserve was there for the particular purpose for which it had been created and that under no circumstances would they permit it to be utilised for any other purpose?—Was that with reference to a recommendation that had just been made by a Committee presided over by Sir James Mackay before he was Lord Inchcape? I think they recommended the utilisation of some of the gold standard reserve for the purpose of capital expenditure on Railways.

192. No. It was much previous to that. The Government of India took about a million and odd out for railway purposes from the gold standard reserve and the Chambers of Commerce at the time drew their attention to this and that was replaced subsequently as a result of these representations?—Yes.

193. Because as we pointed out to them—I personally was at that time the Chairman of the Finance Committee of the Bengal Chamber of Commerce and therefore I was conversant to a great degree with all the literature which passed between us on this particular subject and I can say without any measure of doubt whatever that there was never any hesitancy of any kind or shape in the minds of the Government people as to what the purposes of that particular reserve were?—Possibly both the Government and the Bengal Chamber have learnt something since then from the lessons of the last seventeen years.

194. I don't think so. I do not think that alters the position in any way whatever. Your memory does not carry you back to that date?—I remember it fairly well, because as the Secretary to the Chamberlain Commission, I had to read through all the correspondence that took place.

195. Assuming as it looks to me from this that you wish to make use of the £40 millions in the gold standard [illegible], does not that in a manner amount t[illegible] confiscation of the money in that reserve?—I [illegible] say a useful application of that money, not confiscation.

196. I repeat it. Would you consider that not as a confiscation of that reserve?—I should certainly not regard it as confiscation.

197. You are taking it for practically Revenue purposes?—I am taking it from where I regard some of it as superfluous for a purpose which is urgently desirable.

198. That is, for a revenue purpose?—For a capital purpose. If you prefer to say so, we have been taking it for revenue purposes for the last four years.

199. That is the interest on it?—Yes.

200. But not the capital—not yet?—There is no serious difference between interest and capital in this case.

201. You have taken the interest on the capital but you have not touched the capital as yet. You are taking it or you contemplate taking it for revenue purposes?—Perhaps the simplest answer to that is that I believe having regard to the general position of the Indian Currency that the amount in the gold standard reserve at present of £40 millions is unnecessarily large under the present currency system.

202. I merely want you to give me an answer to that so that we can emphasise it: because there is a very big consensus of opinion strongly in favour of retaining that reserve at any price?—I do hold that it is unnecessarily large and that it is certainly unfair to the people of India to accumulate a reserve at their expense beyond that amount which is required.

203. Then with regard to the handing over of the note-issue, would you consider, in so far as the present position of the Presidency Banks is concerned to-day, that they have got thrown upon them physically a mission that it is almost impossible for them to undertake further duties beyond what you impose on them?—Undoubtedly the Imperial Bank have had some very important functions to perform since they were created and have, I think, performed them admirably. The difficulty of taking on new functions would be to some extent a question of staff. I think that particular difficulty, for example, might probably be fairly easily got over by a considerable transfer of personnel from the existing Currency Department to the Imperial Bank. But I should not regard it as beyond the capacity of the Central Board or the Local Boards and the Managing Governors of the Imperial Bank to take on new duties.

204. Of course the new duties in connection with the Paper Currency Reserve and the Council Bill transactions would be very heavy?—They would be heavy. I am not sure they would be very heavy. The management of the Currency, so far as internal purposes is concerned, though it involves many important duties, has become to a considerable extent mechanicalised. So far as purchasing of exchange is concerned they have in fact been purchasing exchange, as agents of the Government, regularly for the last two and a half years. The main new function imposed on them is the function of control and for that they need adequate staff at the top. But I am not sure it is otherwise a great difficulty.

205. Then having in view the changing quantity of the Governors and their Local Boards and the difficulty which they experience in getting an efficient staff would you think that that would militate in any way against this contemplated move?—Naturally the transition would have to be effected carefully and not too suddenly. But I believe that it will be entirely within their power to undertake

169. Do you agree with that?—I am inclined to think after further consideration that you can get over that difficulty by some such device as I have suggested of taking the figure of fifty crores as among the liabilities of the new Amalgamated Currency Reserve as its liability in respect of the over-valuation of the rupee and the maintenance of a sterling value of the silver rupee and then after that simply providing that for every four rupees issued one rupee has to be covered.

170. It is an arbitrary device?—Yes, but it is suggested with a view to avoiding the separation of the two reserves.

171. There are one or two questions which I would like to ask you on behalf of Prof. Coyajee. Is not the simplicity resulting from such an amalgamation more than counterbalanced by confusing two reserves each of which is constituted for a different purpose and object?—If they were constituted for different purposes and objects, no one has ever been clear I think as to the limits and the line of demarcation between those two purposes. Strictly speaking, the paper currency reserve originally existed solely for the purpose of making paper currency convertible into silver rupees, and in a sense that is its only natural function. It had no original function to maintain the exchange value of the rupee which was, when it was originally constituted, determined solely by the ratio of silver prices to gold prices. It is an excrescence on the purpose of the paper currency reserve to have it made responsible for maintaining the exchange value of the over-valued rupee. I do not think that the present system is really very simple and there is the further difficulty that the amount to be held in the gold standard reserve itself has never been defined. Various estimates have been given at various times as to what the maximum is: but no one I think has ever definitely laid down the maximum figure nor have the purposes of the gold standard reserve ever been formally defined before the public.

172. You are inclined to think there would be greater simplicity in the amalgamation than in the present arrangements?—That is my view.

173. Secondly, Prof. Coyajee asks: would not the object, i.e., in relation to the automatic contraction of the currency reserve, be equally well secured by statutory recognition of the gold standard reserve as regards the time and measure of utilization?—I think it would be possible if you had statutory regulation for the gold standard reserve to secure automatic working.

174. Would it be possible to devise such regulations?—Yes.

175. Finally Prof. Coyajee asks: Has any other country with a gold exchange standard ventured to mix up its gold standard reserve and paper currency reserve?—I am not sure; I am not aware of any other country that has got a gold standard reserve.

176. (*Prof. Coyajee.*) France?

177. (*Chairman.*) No comparable instance occurs to you which will be a useful analogy?—I think you have many more analogies for a single currency reserve than there are for a system containing two separate reserves. There are many systems on the continent of Europe which are very much like the Indian system, where they keep only one reserve.

178. (*Sir Henry Strakosch.*) Would not the French system bear analogy to the Indian system?—Because in France under the Latin Convention Silver five-franc pieces and gold are legal tender. The controlling authorities have the right to pay either the one or the other.—But so far as I know almost the only system where silver and notes and gold are equally legal tender is in France and there they have got only one Reserve centralised in the Bank of France.

179. (*Prof. Coyajee.*) That is true but then they did not have a responsibility for converting silver into gold for export or any such thing?—Silver is an unimportant item in the total circulation in France, but *pro tanto* the same problems arise in France as in India.

180. (*Chairman.*) The second advantage you refer to is the advantage of transfer of control—shall I put it crudely—from Government officials to Bankers?—Yes.

181. Might it not be said that were you to make the standard more completely automatic than it has been in the past by methods suggested in your memorandum that that would diminish any disadvantages there might be in the control of currency management by non-officials?—It may; but at the same time the more automatic the currency system becomes the more importance attaches to the discount policy and that is essentially a function of the Bank.

182. What is the function of the bank now and would remain so?—The most important function would then be the discount policy. The assumption is that the currency system would be so automatic that any action with reference to currency would rest with the bank, and that there would be no reason for the Government to intervene in the operations of the bank.

183. I fear that is an optimistic assumption to make in regard to any currency system. At any rate by increasing the efficiency of the automatic factors in the system, thus reducing the necessity for the personal element, the arguments in favour of transfer to a bank from Government might be reduced to a minimum?—I think in the absence of an automatic system transfer is rather difficult. You want more Government control than if you have got an automatic system. It is more difficult to hand over to the Bank the control of a system which is not automatic than the control of a system which is automatic. If you are improving your system to the extent of making it automatic, there seem to be good arguments for improving it also at the same time by securing unified control of the banking and currency reserves. You probably cannot do it unless you make the system automatic.

184. Again it might be said that, in a highly developed banking country, such unity of control of currency and credit is essential, but it should not be regarded as of so much importance in India, where the banking system is less highly developed, where the use of banker's money and banking credit is of less proportionate importance to the finances of the country. Do you attach any importance to that contention?—I think I would agree with that as a statement of fact. But I would counter it by saying that one of the urgently desirable things in the Indian monetary system is to encourage the development and extension of banking habits, and investment habits, and to facilitate the working of the monetary machine in general; and that you are more likely to secure that object by giving the Imperial Bank control of the Currency than if you retain it with the Government.

185. On the question of popular confidence, is it in your opinion a matter at all to be considered of the relative confidence that would be inspired in a note-issue controlled by an Imperial Bank or Central Bank as compared with a note-issue issued and controlled directly by the Central Government?—I have done my best to get opinions from people as to the effects of a change of system under which the Imperial Bank's name appeared on the currency note in place of the Government's. It is a matter on which it is hard to express a decided opinion but so far as I can make out it is generally thought that it would make no difference at all to the credit of the note.

186. It will have no adverse effect upon the circulation of the note?—So far as the inquiries that I have made go I have not heard the suggestion often made that there would be any material difficulty in getting the note accepted whether it was a Government note or a Bank note.

187. (*Chairman.*) You have dealt with the general arguments in favour of or against (*a*) combining the two reserves and (*b*) transferring the control of

these duties and there is no very enormous difficutly in that proposal from that point of view.

206. You recognise that there is a great difficulty in the changing personnel of the Local Boards and also the difficulty of obtaining the staff required?—So far as the position of the Local Boards is concerned, it might be possible to improve the rules in regard to their composition and thus get over some of these difficulties. But my answer to the whole is that difficulties in any transfer of this sort must always be recognised, but I do not believe that they would be great.

207. Would you consider it would be preferable to transfer these duties to the Imperial Bank, as it stands constituted to-day or to a newly constituted Currency Board?

208. (*Chairman.*) By a Currency Board do you mean an official Board?

209. (*Mr. Preston.*) A semi-official and semi-commercial Board—the Board to be constituted on agreed terms, which would exist for the sole purpose of controlling the Currency and Council Bills?—Entirely independent of the Central Bank?

210. Entirely?—And independent of the Government?

211. Yes?—I have not thought that suggestion out at all. I do not think I have seen it made in that form before, I imagine it would be as bad a system as you could invent.

212. (*Chairman.*) What would be your reasons against such a Board?—It would be a third body between the Government and the Central Bank and unless it was merely the Central Bank and the Government working together under an assumed name, I think it will he bound to come into conflict with both very quickly.

213. (*Mr. Preston.*) My object in suggesting a Central Currency Board is for a dual purpose. In the first case you have told us that as from the Government point of view you would like to be relieved of a lot of the heavy duties connected with the Paper Currency Reserve and the Council Bill work.

214. (*Chairman.*) I rather gather from Sir Basil's statement that his opinion is based not so much upon the volume of the duties as their nature.

215. (*Mr. Preston.*) Equally so. When these duties are transferred to the Presidency Bank you would there meet with an equal amount of political trouble that you on your part as from the Government desire to be relieved of, and, if you had this separate Central Currency Board they would be subject to Government supervision, they would be free from any political intrigue, if I may be pardoned for using the term, to which perhaps a Bank might be subject, and they would work freely on those two points: they would relieve Government of all their worries and they would give a free hand to the Presidency Bank to carry on the great and important mission on which they have now started and which to my mind seems will tax the energies of the Governors, and their Local Boards for many many years to come. Would you agree to that view?—No. I am afraid I must say emphatically that I should not. This Currency Board would either be the Government under another name—if it is to be responsible to the Government, Government presumably will have to answer for its policy. In that case, I think you have merely created some new functionaries without altering the present position at all. If it is really independent, I imagine the last thing a Government could do would be to hand over to an Independent Currency Board uncontrolled and independent of the Imperial Bank complete responsibility for a matter of this sort and the Imperial Bank would have to be in very close touch with this Currency Board if it was to be in a position to carry out its duties in regard to the discount market and so on. If the Board was merely a Board to print notes and so on, issue them on somebody else's orders, it would surely be the currency department under some other name. If it is anything more than that, I think it is bound to lead to considerable friction without, so far as I can see, serving any useful purpose.

216. Supposing a Central Currency Board were constituted and the members of the Board were composed of certain members selected by the Government, representatives of, say, the Governors of the Presidency Banks and representatives of the Chambers of Commerce who would be elected and they take over the whole of the duties, would you have any objection to it under those circumstances?—I am afraid, the idea does not appeal to me at all. That is, I think, the general answer that I must give. I do not see its objects and I can see many possible disadvantages which would lead to a very rapid breakdown of any such Board.

217. In the event of any of the duties which would be assumed by the Presidency Banks in connection with the taking over of the paper currency reserve and the Council Bill transactions Government would be solely responsible in the event of trouble of any kind?—Government cannot get rid of some responsibility, some liablity for control and I think, if I may suggest, what you have in mind arises, if my suggestion for the transfer of the control to the Imperial Bank were followed up, on the question whether some change in the constitution of the Imperial Bank might not be necessary to assist the transfer.

218. (*Chairman.*) Let us deal with the question of the change in the constitution of the Imperial Bank under a fresh heading. I have attempted to follow your attitude towards the suggestion of a Currency Board, Sir Basil: it is that you recommend the transfer of the control in order to effect a closer marriage between the credit and currency control, and in your opinion the institution of a Currency Board would increase the divorcement?—Yes.

219. (*Sir Reginald Mant.*) You observe that the combination of reserves is one of the advantages of transferring the currency to the Bank. Would it not be possible to combine the two reserves while retaining the Government management?—Yes: If I did refer to it as one of the advantages of transfer to the Bank, what I meant to say was an advantage of some newly devised system which would include transfer to the Bank. I think it will be quite possible to amalgamate the two reserves somewhat on the lines suggested in this note without the Imperial Bank being asked to take over the management of the currency.

220. And it would also be possible to introduce considerably more elasticity in the expansion and contraction of currency without transfer to the Bank?—Yes; transfer to the Bank, I think, is quite a separate subject.

221. It sounded as if you were giving some of the advantages of the transfer and it struck me that these two objects could be effected irrespective of this question?—Perhaps I may put it that the ideal that I should be aiming at would be complete unification of the control of currency and credit and that for that purpose transfer of the control of the currency to the Imperial Bank is suggested and similarly for that purpose, amalgamation of the two reserves. But I agree that the two can be considered quite separately.

222. You could have amalgamation and you could have a considerable increase in elasticity?—Certainly. You could effect both objects. What you would not effect would he the unification of control of currency and credit policy. In Mr. Denning's memorandum on the transfer of management of the Paper Currency to the Imperial Bank and in his memorandum on Gold Standard, he assumes only a partial amalgamation of the gold standard reserve and the paper currency reserve. He assumes a partial amalgamation of the two reserves and the creation of a new reserve under a new name, namely, a reserve for the redemption of rupees, which would be constituted out of part of the existing assets of the gold standard reserve. The proposal for the amalgamation of the two reserves is an additional proposal in my memorandum on the Indian Currency System.

223. (*Chairman.*) I should like next to ask a question on a topic which was raised in Mr. Preston's question and it is this. Would any change in the constitution of the Imperial Bank be advisable as a condition of the transfer? It occurs to me it is a question that you might prefer to answer at a later period of the discussion when we have gone more deeply into the question of the alternative standards and how they would work out?—I think that question might come more conveniently later.

224. And the consequential question as to the method by which the Bank would pay for the privilege of note-issue?—That is of course to some extent dependent on the particular system adopted though it is to some extent independent. But it does raise the question of the reconstitution of the Bank because one possible method would undoubtedly be to make the Government in some form or other a shareholder in the Bank.

225. We have dealt with one extremely important heading, which is as it were common to all the three proposed systems. Proceeding I shall next refer to the existing system and ask you what its defects are. It seems to be a logical consequence that before we discuss what the remedies should be we must see what the evils are that have to be remedied. I take it, then, that the chief defects in the present currency system are those set out in para. 2 of Mr. Denning's memorandum at (*a*), (*b*), (*c*), (*d*), and (*e*)?—Yes.

226. The first is 'the maintenance of the system was dependent on the price of silver remaining at such a figure that the bullion value of the rupee was not higher than its exchange value'. It is necessary to anticipate to a small extent here, because it is proposed in your memoranda and the other memoranda that that might be eliminated by limiting the tender of the rupee. Now I should like to clear the ground. To what extent, in your opinion, could this defect in the existing system be eliminated by limiting the legal tender of the rupee? Would it be wholly eliminated?—Not absolutely, but very nearly entirely eliminated, I think. Instead of being in the position that India was in 1917-18 that almost inevitably the exchange value of the rupee had to go up as its bullion value went up, you would be in the position that, for example, France or the United Kingdom were in 1919 and 1920 when, for a short time in England and perhaps permanently in France, the value of the silver in the subsidiary coin the shilling in England and the franc in France went above its value as currency. You had there very similar difficulties to deal with, namely, that your subsidiary coin was liable to go out of circulation and you had to provide some substitute. When it is unlimited legal tender as it was in India during the war, the only alternatives were to go on to a completely inconvertible paper basis or to attempt to recoin your rupee or to let your exchange value go up. If the rupee was simply a subsidiary coin, you could probably very quickly provide some substitute. For instance, there would be no objection to the one-rupee note almost completely taking the place of the silver rupee in such circumstances at any rate while you are engaged in the process of recoining; it is a very different thing in a period of difficulty to recoin a subsidiary silver coin which has only limited legal tender value and to attempt to go entirely on a paper basis.

227. Would you agree that, whether the rupee is legal tender or not, if its bullion value rises above its face value there is the same inducement to melt it down?—Yes.

228. Do I understand that your opinion is that if it were not unlimited legal tender, it would be possible to overcome such a position by substituting either small notes or a debased rupee—a rupee with a reduced silver content than the existing rupee?—Yes.

229. What is the aspect of that possibility? Would it create any less convulsion in the popular estimation of the coinage?—I think you have got to look forward and my assumption is that before you make the silver rupee limited legal tender only, you have to provide complete convertibility of your currency into a full value gold coin. That is the assumption. If you have done that the rupee becomes comparatively an unimportant factor in your external currency policy. It may remain to very nearly the same extent in actual circulation as at present. But you are not going on to an inconvertible basis. You are simply changing the form of your subsidiary medium of circulation, which surely is a very much easier thing to do if both the old and the new subsidiary coin are fully convertible into fully valued gold coin.

230. You are assuming that there has been a period during which the rupee has been convertible into gold?—Yes.

231. Are you assuming an indefinite continuance of that convertibility?—Yes.

232. Are you also making the further assumption that there has been a large substitution of rupees by gold in circulation?—It depends how you define circulation.

233. In my mind I was defining it as circulation as distinguished from hoarding?—I do not contemplate under a system such as I have suggested where the rupee is fully convertible into a gold coin, that there would necessarily be any large use of the gold coin for ordinary purposes of circulation. I do not think there would necessarily be any large reduction in the volume of transactions still carried out in rupees.

234. Then let me ask you, is it possible to form an estimate as to what amount of rupees would remain in circulation for the purpose of current transactions—what amount is required by the country for current transactions for which gold would not be used?—It is a very difficult figure to arrive at; but I think that an absolute minimum figure would be 150 crores, which is roughly rather less than Rs. 5 per head of the population. It might very likely be a larger figure.

235. Now let us compare that with the present figure for the circulating rupee—it is given somewhere in your memorandum?—You mean the rupees actually outstanding.

236. No. It is the figure which is so very much more doubtful, the rupees outstanding but which are not hoarded?—I have been talking to Mr. McWatters on this question and he is trying to prepare some more figures which he would give when he comes before the Commission, on this particular point. If I may, therefore, answer more generally I would like to leave it to him to reinforce what I say or give his answers after an attempt to study the figures more fully. We know that since 1835 when rupees were first coined—the figures are in the Report of the Controller of the Currency, 1924-25—Statement IX, pp. 58-59—there have been coined 647½ crores of rupees; that is the gross amount coined. We know that some of these issues have been redeemed practically in full. The 1835 issue of 26½ crores has been practically all called in. There was also an issue of a crore in 1911 which had to be called in—it was the first George Vth rupee and the elephant in one of the King's decorations was so like a pig that it had to be withdrawn. Then we have recoined a good many in place of worn coins. Mr. McWatters is giving more exact figures—but I believe that he brings the maximum that can be outstanding to something like 450 crores, without making any allowance for rupees that have been privately melted. That is where we get into complete doubt. Of course up to 1893, the silver coin was a full value silver coin and the cheapest way of obtaining silver very often was to melt the rupee. We know very large amounts have been from time to time melted in this way, so that you come down to a figure which is probably not as high as 350 crores and certainly does not exceed 400 crores for the maximum number of rupees now in existence—that is, hoards and circulation. I believe that another calculation based on figures in the annual census of rupees which is taken year by year and the results of which are tabulated in the Report of the Controller of the Currency, brings it to a figure of about 330 crores as the amount of rupees actully in existence at the present day. But it is obviously a very difficult figure to arrive at. I

think one may say with some degree of confidence that it does not exceed 400 crores and is probably nearer 300.

237. Is it possible to make any shot at the proportion in hoards?—If you take a minimum of Rs. 5 per head as the amount of rupees which are in real effective circulation and take off something for the Indian States which have got their own currency, 150 crores seems to be an absolute minimum for the amount in circulation in any circumstances and it is probably a higher figure—something nearer 200. That gives you a maximum figure for hoards of 200 and a minimum that may be not more than half of that.

238. So that when you were answering what I was asking you just now about your assumptions as regards the way in which a rise in the price of silver would affect the matter and could be dealt with, you took the figure of 150 crores as the amount of rupees which would then be remaining in circulation you were really assuming no substitution of gold for silver in active circulation?—I think one ought to add a figure of about 10 crores for the substitution. But I had ignored it as my figures were obviously not necessarily correct within 10 crores—it was hardly worth taking into consideration.

239. Let me put the question now from the knowledge we have gained. Supposing a rupee circulation of that order, what would be the social and political effect of the substitution of the silver rupee by a small currency note or by a rupee of reduced silver content, even though the rupee were no longer unlimited legal tender?—One would hope that it would be comparatively small if you had a period during which it had been recognised that the rupee was freely convertible into gold and if the new substituted medium of circulation were equally freely convertible into gold.

240. The uneducated populace, for instance, would be so much alive to the circumstance that gold was available that it would no longer be troubled by the status of the rupee?—One would hope that that would be the position. Obviously if the rise of silver took place within a short period after the removal of the legal tender character of the rupee, it would not be so easy to recoin as it would if it had been for 10 or 15 years or a generation in force. What I would be inclined to say is, it seems to me almost inconceivable that you can recoin the rupee or take away its unlimited legal tender character unless you have substituted some other metallic currency.

241. And as you very fairly say in your last answer, the people should be given time to get accustomed to the new possibility?—Yes: For a period of 20 years in the beginning, anyhow you will be subject to considerable difficulties if you had a rise in the price of silver. That is, I assume a period of 10 years for the introduction of the system and another 10 to 20 years for people to be thoroughly accustomed to it. Afterwards it will be possible to treat the rupee with the same contumely as the shilling.

242. There are many passages in previous reports which refer to the deeply ingrained habits amongst the ryots and the uneducated people, who regard silver as the ultimate basis of all currency. Has there been any change in that habit in recent years?—We had of course the rupee note in circulation, and in some parts of India it was very freely accepted and indeed there have been complaints from a good many different quarters at our action in withdrawing it; that action had nothing to do with its unpopularity but it was solely with reference to the comparative cost of the rupee note and the rupee, because we found it was more expensive on the whole—at any rate for some time to come, while we had a large amount of surplus rupees in hand—to give the public a rupee note than a silver rupee.

242A. Was that because of the very short life of the note?—Partly because of that and partly because the note had been printed to a large extent bound up in little books of 25 which people would carry about in a convenient form, with the result that the use of our five-and ten-rupee notes was interfered with considerably. I think the Report of the Controller of the Currency has some interesting figures on the point. The average life, from the time of issue to the time of cancellation, of the one-rupee note was 8 months in 1924-25 and 9 months in the two previous years. Five-rupee notes had a 13 and 14 months' life—but the general result was that it was an expensive note to keep in circulation.

243. In your opinion the free acceptance of the one-rupee note shows that the uneducated public is beginning to be educated beyond the rupee?—I think the war has educated the public in India as elsewhere to vagaries in currency which might have been thought impossible before the war. I may add that it is obvious that the last answer of mine does throw some doubt on the statement that it is out of the question ever to recoin the rupee unless you give some other metallic coin in its place.

244. That argument might be pressed in any direction to show that it is unnecessary to give additional encouragement in that respect?—I still believe it to be for practical purposes out of the question but I draw attention to the fact that that argument can be pressed.

245. I presume you would agree that the process of inducing the people to use more scientific forms of currency instead of the rupee is a process that will be greatly accelerated by the substitution of gold currency?—That is certainly my view, my conviction.

246. Another group of defects in the present system is referred to in Mr. Denning's analysis, which consists in the absence of any automatic stabilization of the rupee or the absence of any provision for automatic contraction of currency. I understand that in your opinion these defects are equally remediable by any of these three possible currency systems referred to in your memorandum, i.e., the sterling exchange standard, the gold exchange standard and the gold standard?—The only reason why the State is not able to undertake absolute liability automatically to give foreign sterling for rupees and rupees for sterling has been the size of the reserves. There ought to be no serious difficulty, if the reserves are adequate, in taking absolute liability to make the rupee exchangeable into international currency within the gold points.

247. And that remedy is substantially the same under any of the three systems?—I should hope that the Commission would recommend action on these lines whatever system they adopt.

248. I take it that as long as the gold standard reserve exists without the provision of any definite relation between the size of that reserve and the amount of currency outstanding, there could be no automatic contraction of currency?—I see no reason why the mere existence of a gold standard reserve should interfere in the matter of the automatic contraction of currency. I do not think so much of the absence of a relation between the size of the reserve and the amount outstanding in the absence of any absolute rule that sterling must be given for rupees or rupees for sterling at fixed points and that the currency must be expanded or contracted perfectly automatically as that happens. The gold standard reserve could well be used in that way only, subject to the assumption that its amount is adequate to meet all needs. But at present it can be also be used to borrow from instead of simply to withdraw from, and if you borrow from it, you can of course increase your capacity to meet sterling without making any contraction in your circulation, as long as it lasts. That is of course, as I pointed out this morning, where the effort to introduce the two shillings rate broke down. A stage was reached where it was felt to be too dangerous from the point of view of contraction of credit in India, and I imagine from the point of view of the Government's budgetary position, to go on contracting the currency, so that the sterling assets were used to enable demands for sterling remittance to be made, but

no corresponding reduction was made in the rupee circulation. As long as that is possible, as long as that is done, you have not got a completely automatic system.

249. (*Mr. Preston.*) With regard to the extent you have just mentioned of the gold standard reserves, is not that more dependent upon what unfulfilled balance of trade of India is outstanding at any one time?—The size of the gold standard reserve I think has got to be taken in relation also to the size and composition of the paper currency reserve. The amount that you require is the amount that is required to meet the maximum possible demand to take rupees or notes out of circulation in India and give sterling exchange in place of it. There are two limiting factors: the amount to which rupees can afford to come out of circulation is limited, otherwise you will have such a contraction of credit that people cannot afford to buy sterling. Assuming that we have had, as happened some years ago, two bad seasons, or three, the question how far a gold standard reserve of 40 million would go—or say three bad seasons taking an outside limit—that of course depends very much on world conditions.

250. You have referred to a gold standard reserve of £40 million?—I should prefer to say that we have got sterling assets apart from the balances with the Secretary of State of I think 109 crores, which is a very much bigger figure. I do not think you can take the demand in relation to the gold standard reserve alone; it must be in relation to your total sterling.

251. (*Sir Henry Strakosch.*) Is it not a fact that if there were a succession of bad seasons, the mere fact that the seasons of the previous years were bad would automatically contract import into this country and therefore the need for sterling remittances?—That is so to a certain extent. Of course it may happen and it happened in 1920-21 in particular that there is a boom and very large imports are ordered in advance. You then have a change of conditions, a bad monsoon or something corresponding to a failure of exports and at the same moment the imports previously ordered coming in to be paid for. That is the moment at which the strain on your reserves is likely to be the greatest. When you have got over that, the effect of the failure of crops must mean a very large reduction in the capacity of the people to order goods from abroad and a big reduction in imports, and the strain is not anything like what it would be at the first period after the change from booming conditions to something in the nature of a failure of crops. You have, however, to allow for the Government's large external liabilities also. I have not worked out the exact figures on this particular question, and I have asked Mr. McWatters to be prepared with figures as regards what have been historically the largest demands on the reserves at a time of trouble. The position in the years 1907-08 and 1909 is set out at very considerable length in the Chamberlain Commission's Report and in the Appendices and I believe there are some figures in the Appendices to the Babington-Smith Committee's Report which give the same general results. If you consider both the possible maximum demand for sterling and the possible extent of contraction that the market in India will stand, it seems to me that even 40 million is a pretty large figure for any particular demand.

252. In fact the upper limit of sterling reserve is the amount by which you can contract the circulation in the country or rather the point at which further contraction of the currency in the country would cause a greater damage than the abandonment of the gold points in the exchange?—Of course one has to assume also the capacity to borrow in London in times of difficulty. The object of one's reserves is to be able to rely on them. At the same time the Government of India is continually spending considerable sums in London or paid for through London and in times of difficulty it is quite legitimate that they should borrow some part of their capital expenditure in London even to an extent more than the amount they are actually spending in sterling at the moment.

253. Would you consider 110 crores as the maximum by which you can contract circulation in India?—I should regard it as a wild over-statement of any contraction that the market could possibly stand.

254. What figure would you put it at?—It surely must depend very much on whether you have a large boom or increase in prices or the conditions of world prices may be bad—25 crores is perhaps a maximum, it is a very large contraction.

255. (*Sir Norcot Warren.*) I should say 10 crores. (*A Member.*) I would hesitate to go as low. Previous Commissions felt that you ought to have as much as the difference in two years' balance of trade.

256. (*Sir Henry Strakosch.*) Of course the contraction might be greater in a country where you have big hoards than in a country where money circulates purely as money?—I was speaking of contraction of the real circulation. The existence of the hoards is of course both a hidden danger and a hidden reserve against difficulties.

257. Would not they call for a greater exchange reserve?—Yes, at the same time they provide for the possibility of a considerable export of metal. But there is in addition the use in a time of trouble of the hoards of uncoined gold and silver; historically I believe it has been almost invariably found that in a time of bad monsoon ornaments are melted and come to the Bombay bazaar and find their way out either in reduction of new imports of silver or actually for exports of silver.

258. Did your figure of 25 crores contraction take into account what might come back from hoards?—No. I was giving what seemed to be an over-estimate, even at 25, of the amount of the contraction of the actual circulating medium that was possible.

259. (*Sir Purshotamdas Thakurdas.*) I think that you said earlier in your examination that the contraction which the Government of India effected after the Babington-Smith Committee Report till March, 1923, was 60 crores. I think this extended over a period of two to three years perhaps. And although that was after the war period when abnormal conditions with an immense inflation had taken place, I believe that you told us that you found it impossible to contract more than 60 crores till March, 1923?—I had not this in mind in giving this figure.

260. I mentioned the above wondering if it would help you to endorse the figure of 10 crores named by Sir Norcot Warren and discard the figure of 25 crores which you have just mentioned?—I believe that 25 crores would be a very large contraction.

261. After August, 1923, no further contraction of currency was found possible by Government?—That is so, or at least not desirable.

262. (*Sir Purshotamdas Thakurdas.*) Even after this abnormal period 60 crores in three years was found to be the limit to which the Government of India could go?

263. (*Sir Henry Strakosch.*) Were these years of good monsoon?

264. (*Sir Purshotamdas Thakurdas.*) Fairly good.

265. (*Sir Basil Blackett.*) You had a tremendous fall in world prices taking place, but even in spite of that contraction Indian prices fell considerably less than world prices. An automatic system would have required an even greater contraction.

266. (*Sir Reginald Mant.*) In Mr. Denning's memorandum he says that it is practically impossible to remedy defect (D) without taking away the full legal tender character of the rupee. I gather that you do not adhere to that view? In paragraph 5 he says it is practically impossible?—I am inclined to think that it is possible—that the amalgamation of the two reserves is quite possible quite independently.

267. If you had a system of automatic contraction, what would happen when you came to a situation such as you described in 1921 when the Government sold reverse councils and they could not contract the currency much because it would cause a stringency? If you had a system of automatic contraction, something would have to give way?—Yes; if Government has got itself into the position that it has a large Budget deficit and a large amount of floating debt maturing, it is almost inevitable that the full rigor of an automatic currency system must be modified, and a temporary departure from the standard is unavoidable. If you have conditions at all corresponding to those after the war, it only means that other considerations have induced the Government, justifiably or not according to the circumstances, to have regard to other desiderata rather than to the stability of exchange, as was done practically everywhere in the world during the war.

268. Apart from budget deficits, if you had a phenomenal fall in prices that in itself would rather break your system?—Any currency system, of course, is subject to considerable strain at the moment when a boom collapses, but unless you have abnormal circumstances, or there has been some failure of control of the credit policy, it ought to be possible to get through that period of panic without completely divorcing ourselves from our existing currency law. There is always, of course, the possibility of a suspension of the Bank Act in England. I contemplate that some similar provision would still exist in any currency system adopted in India, but it must be understood that if you want to have stability of exchange, the penalty of undue optimism in a period of boom is a period of very severe stringency afterwards.

269. (*Sir Henry Strakosch.*) Is not that the particular virtue of a Central Bank?—That is the very object of a Central Bank. It is the particular function of central banking to maintain the credit policy, to prevent any undue strain on the currency system; and of course it is the particular virtue of an automatic currency system that it results in undue speculation or optimism meeting with its own reward without the intervention of any other party who could be accused of being guilty of causing the trouble. That, I think, is one of the great objections to the Government controlling the currency system, that the trouble is caused as a natural result of the speculation or undue optimism in business circles, and the remedy is a contraction of the currency; but if Government are the agent for bringing it about, they are accused of causing the slump, and the accusation also is made that the boom was engineered by the Government. If, it will be said, the boom is not engineered by the Government, then it is said that the Government has brought the boom to an end wickedly for its own purposes, for example, because it does not like to see people making money. This is not peculiar to India. It is exactly the position that you have had after the restoration of the gold standard in England.

270. (*Chairman.*) I would like to refer to a matter mentioned by Sir Reginald Mant with reference to what Mr. Denning says in paragraph 5 of his memorandum about the difficulty of amalgamating the reserves. I understand that you are not so much impressed by that. In your view the relation would be not to the circumstances mentioned by Mr. Denning, but to the proportion of the rupee circulation returnable from circulation, from which it is possible to make a more certain estimate?—Yes. I think you can make a fair estimate; as the ideal size of the gold standard reserve really is unascertainable on exactly the same grounds, namely, the unascertainability of the liability that it is called upon to meet, you do not really add to the difficulties in any way of the problem by transferring the element of uncertainty from the gold standard reserve to the new amalgamated reserve.

271. In your view the circumstances to be taken into consideration in trying to estimate whether your reserve is adequate or not is not the difference between the token and the bullion value of the total circulation outstanding, but what amount of the currency in circulation it is possible to spare out of circulation, *i.e.*, the degree of contraction?—It is the degree of contraction. I do not mean that you can ignore hoards entirely. You do not need cover in the reserve for the whole of the rupees in circulation or in hoards, because they themselves carry part of their own cover. Nor do you need cover for every rupee in circulation or in hoards, because a very large proportion of them cannot in any reasonably conceivable circumstances be spared from the purpose that they are serving. The size of your cover is dependent upon the amount of rupees in circulation or hoards which you are likely, in the most extreme circumstances, to be called upon to meet.

272. Is it right, in considering the reserve necessary, to take into account at all the bullion value of rupees returned from circulation; because will not those rupees be required to be reissued into circulation with the recovery of trade?—That is one of the great difficulties of having an over-valued coin as your main medium of circulation and unlimited legal tender. If you have fully valued coin and it comes in, owing to redundancy, in times of trouble, the metal in it, if gold, at any rate, has an immediate world value which is not fluctuating. If you have an inconvertible note as your main medium of circulation, you have got the whole of your reserve against that centralised all the time; and as the note comes in, your reserve is realised and you can deal with it. But if you have got, as you have here, an inconvertible currency consisting ultimately of a note printed on silver, you have got only a proportion of your cover in reserve under your own control in the centre and the reserve that is carried about in the coin itself is of least value at the moment it comes back to you.

273. Why of least value?—Because if you want to sell it you immediately depress the price; it comes to you under circumstances in which the price of silver is likely to be low, and you would depress the prices further by using it, so that your natural desire is, if you can, to put the rupee by and not to use it at all for the purpose of meeting your external drain, and hope that circumstances will come later on when you will be able to reissue it. The result of that system, of course, is that we have at present over 90 crores of rupees in the paper currency reserve locked up. We have considerable difficulties in finding accommodation to keep them in and we are losing, of course, interest on the whole of the bullion value. There seems to be no particular likelihood that we shall be able to get rid of them, say, even within 10 years, and, of course, a large part of the cost of the suggestion for a gold standard is due to the existence of this large hoard of rupees locked up uselessly and the need for liquidating it.

274. (*Sir Norcot Warren.*) You stated that the maximum number of rupees now in existence—hoards and circulation—certainly does not exceed 400 crores. Do you include in that 400 crores the coins hoarded in Hyderabad, Gwalior, and other Indian States?—Yes; in so far as they are Government of India rupees. Some of the hoards are believed to be in gold. Some States, for example, Hyderabad, have their own rupees, and some only of the hoards are in Government of India rupees.

275. (*Prof. Coyajee.*) Two of the objections advanced against the old gold exchange standard, that is (*c*) and (*d*), seem to be capable of being remedied by statutory obligations. A statutory obligation might be imposed on Government to sell reverse councils—that the proceeds of such sales and of reverse councils being in rupees, should be locked up in the gold standard reserve. And that is automatic contraction?—Yes.

276. So these two objections may be made to disappear. Thirdly, if convertibility of the rupee into gold could be introduced with the increase of our

gold reserves, then the people might get what currency they like, and the standard is capable of being considerably strengthened by these obvious expedients?—Certainly.

277. Because in this memorandum whenever we read of methods to remedy the defects, it is proposed immediately to abolish it, to make the rupee a subsidiary coin and so forth. That would certainly be a radical change, is it not?—The only way of remedying defects due to the fact that the rupee is an over-valued silver coin of unlimited legal tender is obviously to take away the unlimited legal tender.

278. Would that be a gold exchange standard at all when the rupee is in the position of the shilling? If it is some subsidiary coin then the system could not be such?—We might conceivably have a gold exchange standard with the rupee as a subsidiary coin if for internal purposes the only unlimited legal tender is a currency note—inconvertible except into foreign exchange.

279. (*Mr. Preston.*) With regard to that expression " foreign exchange," could you tell us why it has been introduced into these suggestions? Hitherto the settlement always has been through London I think?—I have pointed out in my memorandum that the pre-war standard was only a gold exchange standard in the sense that sterling was regarded as equivalent to gold. If you still regard sterling as equal to gold—and, as I think, there are very strong reasons for doing so—there is possibly no need to draw a distinction between sterling and foreign exchange. But if it is to be theoretically a gold exchange standard it must, I think, carry within itself some provision for dealing with the abnormal moment when sterling and gold are not at parity.

280. What I want to get at is this. It seems to me, I may be wrong, but the use of this expression " foreign exchange " seems to convey to one's mind that there is some idea that as against notes tendered for exchange, funds in New York might be provided?—Or Amsterdam.

281. Why should India go to provide funds in New York or any other centre?—As you will observe that is not the form which I have blessed very much in my latest memorandum on the subject. But you cannot have a system that is proof against the eventuality of sterling failing to maintain parity with gold, unless there is some provision either that your rupee or note is convertible into gold, or some provision that if sterling is not gold your rupee is convertible into currency that is gold.

282. Would it not be better in our case to maintain what has always been the practice—to hold against the note or rupee, gold funds or gold to be given in London; so that if one wants foreign exchange, he can buy foreign exchange in London—but it will be no part of the duty of the Government of India or the Imperial Bank on whose shoulders such an obligation might be imposed to go to the extent of providing funds in America or Amsterdam or any of these outside world centres?—I do not suggest, so far as I am aware, nor has it been suggested, that it is a desirable proceeding, but it is merely stated that some provision of this sort is required if you are to meet the objection, theoretical if you like, that sterling and gold are not necessarily identical. At least, the experience of the last 10 years suggests that they are not always identical.

(*The witness withdrew.*)

SECOND DAY.

Wednesday, November 25th 1925.

PRESENT :

THE RIGHT HON. EDWARD HILTON YOUNG, P.C., D.S.O., D.S.C., M.P. (*Chairman*).

Sir RAJENDRANATH MOOKERJEE, K.C.I.E., K.C.V.O.
Sir NORCOT HASTINGS YEELES WARREN, K.C.I.E.
Sir REGINALD MANT, K.C.I.E., C.S.I.
Sir HENRY STRAKOSCH, K.B.E.
Sir ALEXANDER ROBERTSON MURRAY, C.B.E.
Sir PURSHOTAMDAS THAKURDAS, C.I.E., M.B.E., M.L.A.
Professor JAHANGIR COOVERJEE COYAJEE.
Mr. WILLIAM EDWARD PRESTON.

Mr. A. V. V. AIYAR, C.I.E.
Mr. G. H. BAXTER } (*Secretaries*).

The Hon. Sir BASIL P. BLACKETT, K.C.B., recalled and further examined.

283. (*Chairman.*) Sir Basil, there is one point in your evidence of yesterday I should like to be cleared up preliminarily. Sir Norcot Warren desires me to ask you this question. In your evidence you say that the reserve of 109 crores is available against unforeseen contingencies. He would like to ask you if you consider this sum is sufficient, and, if so, to give your reasons? — That is under the sterling exchange standard. I think yesterday there was some confusion between two different points. One point was, what is the maximum of contraction of active circulation that you would conceive possible, and the other was, what is the basis for estimating the amount of sterling reserves that you would require. There is some difference of opinion as to the maximum figure by which you could possibly contemplate reduction of active circulation. I put the maximum at something like 25 crores, and Sir Norcot Warren, I think, suggested that 10 crores would be the maximum. That is the amount by which I could conceive the actual contraction of the circulation that is actively employed as a medium of ordinary circulation of currency. The size of the reserve, however, I think depends also on the amount that is likely to come out from hoards in a time of scarcity, and it also depends on the amount of adverse balance of trade against India in such a season, including in that adverse balance the expenditure which has to be incurred by the Government in or through London. I still feel that 25 crores is probably a large figure for the amount by which you could actually reduce the active circulation, but something very much more is required to protect your currency system against the rupees that might come out from hoards, and for that purpose you need a very much bigger reserve. Taking all the factors into consideration, my view would be that 109 crores is a very very safe figure for any possible demand that you may have, but that you have to take into consideration not merely the figure of reduction in active circulation, but generally the

pressure of rupees to exchange themselves into external currency, and that is a very much larger figure.

284. Will you kindly explain what is the difference between the latter two figures to which you refer, the rupees that might come out of circulation and the rupees that are needing to exchange themselves into foreign currencies? They seem at first sight to be the same?—There is a difficulty in getting a correct definition of what is a hoard and what is in circulation. In a sense all rupees are in circulation, but those that are hoarded in a good time are, I think, a special danger to the currency system if for any reason they come out of the hoards, and are potentially a danger to the circulation, especially if they are an addition to the volume of rupees seeking conversion into foreign exchange.

285. Then we may consider that in a year of pressure on exchange the rupees seeking conversion into international currency, into foreign exchange, may come from (*a*) circulation and (*b*) from hoards?—Yes.

286. There are one or two questions still to be asked, I think, to complete the picture of the sterling exchange standard. I want you to make clear, in the first place, the nature of the balance of 18 crores which you refer to in paragraph 13 of your memorandum. Am I right in supposing that this is obtained by a reduction of silver and rupee securities in the reserve? Your point is that an extra 50 crores of assets are required to balance the liabilities of the new currency, and you think that with this surplus there will still be a free balance of 18 crores. You say in that paragraph that "it would be tempting to apply this 18 crores to reduction of India's sterling debt, but in order to start the new scheme with an extra margin of safety, I would suggest that it should be used temporarily to relieve the new currency reserve of some of the surplus rupees"?—In essence, of course, this is arrived at by adding up the potential liabilities of the new currency reserve, 50 crores being added especially for the liability in respect of the over-valuation of rupees, and then on the other side by adding up the total of the existing assets in the paper currency and the gold standard reserves. They come to nearly 18 crores more than the total liabilities so ascertained. The memorandum then goes on to suggest that 18 crores might be used for capital expenditure as being surplus to reserve requirements. It might be taken out in any form, either silver or gold or sterling securities or Government of India rupee securities, but the suggestion is that it should actually be taken out in silver rupees, and that these should be held in stock until such time as the demand arose for new coinage for additions to the silver rupee circulation. When that happened they would be paid for, and the Government would have funds in rupee balances available for other expenditure. This 18 crores of rupees is simply a calculation of the amount by which the existing reserves are possibly unnecessarily large.

287. And an unnecessary margin according to the arrangement for which you are liable in regard to former reserves in respect of the silver side of the reserve?—It is in essence a suggestion that the gold standard reserve is 18 crores larger than is required. If you remodel the currency system on the lines suggested in this memorandum, you could get the same result by writing down the Government of India securities and reducing the created securities by a corresponding figure, and leaving the assets as shown in paragraph 14: silver, 90·7; Government of India rupee securities, 39·1; and sterling securities, 109·7.

288. That would be an equally possible course?—Yes.

289. What would be in your opinion the relative advantages of the latter course?—The reserve would, in a sense, be stronger. On the other hand it would contain an enormous amount of silver which is obviously not immediately necessary, and the question might arise of the desirability of selling some of that silver, in which case you would incur a loss, with no means of recovering it except by recreating the Government of India securities.

290. (*Sir Henry Strakosch.*) Will Sir Basil tell us what is the amount of silver he considers necessary to maintain the convertibility of notes expressed in a percentage of the note circulation?—I think the old rule used to be that you endeavour to prevent the amount of rupees in the reserve falling below a minimum figure at the beginning of the busy season. The figure I know is given in the Chamberlain Commission Report.

291. Yes, it is given at about 600 lakhs above the normal figure?—I may read from paragraph 107 of the report, which says as follows: "To meet demands from this and other causes during the busy season the Government consider that the stock of rupees in the reserve should not be allowed to fall below 24 crores on the 1st November in any year, or 18 crores on the 1st May in a year of active trade." That puts 18 crores as the minimum required in normal circumstances at the moment when the stock of rupees is likely to be lowest.

292. May I ask what was the note circulation at that time?—About 69 crores. But I do not think the size of the note circulation is entirely relevant. The question is really what is the maximum amount of rupees that are likely to go out in a normal season. If you keep the minimum balance of rupees at a figure of, say, 18 or 20 crores, and raise it to something like 24 or 30 crores at the beginning of the busy season, you can always use your sterling securities to buy silver and coin rapidly if there is an additional demand, and it seems unnecessary to go to the expense of coining a larger number of rupees than that until you are quite sure they are required, and I think the best way to provide for the absolute convertibility of the note into the silver rupee is to have adequate minting facilities readily available, and sterling assets readily available from which to purchase the silver as required. I do not think a figure based on the proportion of the total note circulation would give you such useful results as a calculation arrived in the way I have suggested.

293. You suggest that the first rush in the case of a desire to convert would not be more than 18 to 24 crores, and that the balance of the demand might be met by minting?—Yes.

294. That depends upon the capacity of the Mint?—I think Colonel Willis is coming to give evidence before the Commission, and I hope he will be able to give you interesting evidence on that point. That is why I have suggested in my memorandum that it is not really necessary to lay down a minimum. I would rather lay down a maximum, to prevent the unnecessary coining of rupees before they are required than insist on a minimum by statute.

295. (*Chairman.*) We will probably be able to get from Mr. Denning statistics as to what within recent years have been the limits of the seasonal fluctuations in the demand?—I think Mr. Denning would give most useful evidence on that point. Figures are as a matter of fact given in one of the appendices to the memorandum on the history of the Indian Currency system. Appendix III gives the absorption of currency by the public, from 1899 to 1924-25.

296. That gives the resultant *plus* or *minus* figure for the year, but does it throw any light on the amount taken out in return of silver rupees at the commencement of the busy season for the financing of crops?—I agree that monthly figures are required which are, however, easily obtainable. I think Mr. Denning or Mr. McWatters would be able not only to give the figures but to elucidate them more fully before the Commission.

297. More or less in this connection it may also be useful to have some figures as to what, in recent bad years, has been the demand for sterling to maintain the rupee in each year of exceptional pressure, *i.e.*, by the demand for reverse councils?—Of course our chief experience there is the abnormal year 1920

when the facts are considerably obscured by the coincidence of the attempt to bring the Babington-Smith Committee's recommendations into effect. The most illuminating years are probably 1907-8 or 1908-9 and the year of the outbreak of the war.

298. On that point I think probably you have given all the figures in Appendix II to the historical memorandum?—Yes.

299. I think this would be the appropriate place to ask some questions which Sir Henry Strakosch desires me to ask relating to the constitution and the nature of the securities to be held in the reserve under the sterling exchange standard as defined in paragraph 11 of your memorandum. Do you not regard self-liquidating Bills of Exchange a more desirable cover for the note-issue than Government of India securities?—Theoretically, yes, for that part of the circulation which is elastic. But in Indian conditions as they are at present it has been found extraordinarily difficult to provide even the maximum of 12 crores of self-liquidating hundis required for the working of the emergency currency system. Broadly speaking, they do not exist. The Imperial Bank had, I believe, to put some pressure on their clients to convert cash-credits into hundis in order that they might have self-liquidating hundis to put up as a cover against what the Imperial Bank was borrowing from the paper currency reserve. It was recognised as not being a satisfactory way of meeting the situation, but the Indian system of business does not at present create any very large amount of suitable internal bills. The Government had also to accept the word of the Imperial Bank for it, as to whether a Bill was a genuine self-liquidating bill or not. The Imperial Bank did its best but very often the document on the face of it bore no evidence at all as to whether it was a genuine trade bill or not, so that I think my answer would be that theoretically there are advantages in having self-liquidating Bills of Exchange as cover for the elastic portion of the note-issue rather than Government of India securities, but that there is no practical possibility of substituting one for the other in India for a generation or more, until the public gets accustomed to the Bill of Exchange as an instrument of credit. It is a most desirable development, I think, but it is one that will have to come very slowly.

300. (*Sir Henry Strakosch.*) I may say that the same trouble is experienced in other countries which have introduced a central banking system, but the habit of drawing Bills is rapidly increasing in those countries?—Yes. But in a country like India unless, as would be most desirable, you get Bills of this sort drawn largely for the movement of agricultural crops it is almost out of the question to arrive at a situation at which you can rely on self-liquidating internal bills as cover for your note-issue.

301. (*Chairman.*) The second question of Sir Henry Strakosch's is this. If so, why is the holding of such Bills limited to a maximum of 20 crores (on present note-issue equal to 10·5 per cent.) irrespective of the amount of notes in issue. I take it that is not completely answered by the answer to the first question, because one might say that, even though you do not think you could get so much, why should you necessarily limit the theoretical maximum of your best security?—I put the figure at about double of what you are likely to get and left it at that.

302. Then why under those circumstances impose a maximum at all if a maximum is going to be imposed by the limit of supply?—I thought it would be better to put a maximum for the time being until you were sure that the right sort of Bank Bill developed and was available in sufficient quantities, leaving it until that date to alter the law rather than put in an illusory figure which might lead to attempts to create the wrong sort of bill.

303. The latter consideration is no doubt very important. Sir Henry Strakosch's third question is: Would Sir Basil Blackett see any objection to giving Bills of Exchange first rank by permitting up to 40 per cent. of the note-issue being covered by Bills of Exchange, the cover by Government of India securities being limited to an amount equal to any deficiency in the holding of Bills below 40 per cent.?—There is of course the objection that I have already given that you do not want to hold out visions of a system that you do not see working; with the possible result of the creation of the wrong sort of trade bill. Other reasons of course would be that at any rate at the time of the introduction you do want in order to reduce the cost of the transition to the Indian Budget to be able to place a considerable quantity of Government securities in the reserves to cover the nominal loss incurred by the sale of rupees.

304. (*Sir Henry Strakosch.*) Would not the Imperial Bank, when Bills are presented, be particularly careful to see that the bills are of a quality which is suitable as cover to notes?—The trouble is that if the Imperial Bank did that, it would hardly be able to use the existing facilities for borrowing even up to the total of 12 crores. It is careful of course to see that the Bills against which it borrows are not entirely of the wrong sort. But as I said, it had to go out of its way to invent bills of the right sort which do not normally exist and to encourage its clients who had cash credits to convert into hundis by offering to pay stamp duty. That is the essential difficulty. India being at present what it is, you cannot contemplate the Bill of Exchange taking the place that is assigned to it in the financial system which Sir Henry Strakosch rightly regards as most desirable.

305. What I am particularly anxious to avoid is to set a maximum for the most desirable security against the note-issue. If it is a fact that there are not sufficient bills available certainly at first, then the Government of India securities will still bulk very largely as a cover, and, as the habit of drawing Bills increases, so gradually the Government securities recede. If we take the nature of the check that would be put upon the quality of Bills by the Imperial Bank and the slowness of introducing the new habit, would that not be sufficient to eliminate the maximum which you have set?—I appreciate the point, but it does not seem to me to be probable that within a generation you would be able to use self-liquidating bills of exchange, internal bills of exchange, to the extent suggested. It would be quite possible no doubt by merely a nominal change in the finance to leave a wider margin, but I do attach importance to not holding out hopes of doing that prematurely.

306. (*Chairman.*) I have followed your objection to that as being that when you specify a maximum, according to the old rule it is apt to become a minimum; and if it became a minimum, and if it is used as a working minimum that might tend to create the acceptance by the Bank of bills not of the highest type?—Yes.

307. Continuing Sir Henry's question on another aspect, you are no doubt aware of the provision in the more modern Central Bank Statutes that demand liabilities of the Bank are required to be covered by a minimum reserve varying from 35 to 40 per cent. Do you not consider it desirable that a similar provision should be introduced in the reserve provisions of the Imperial Bank?—That I think raises the very interesting general question of the form in which the issuing Bank should keep its statutory published statements. The English system is to have a separation between the banking and the issue departments. Under the English system there are statutory rules in regard to the composition of the cover for notes issued by the Issue Department, but the extent to which cash is kept to cover demand liabilities in the banking department is left to the unfettered discretion of the Bank Court. As I gather, the suggestion here is that in addition to the rules regarding the proportions or amounts in which the cover against the notes issued is to be kept, there should be rules

requiring the bank to keep a minimum cash cover for its liabilities other than its capital and reserves.

308. (*Sir Henry Strakosch.*) May I say that I had in mind not domestic cash, but gold or gold securities in our case?—I have always had a preference for the separation of the issue department and the banking department in the form in which the Bank of England's statutory return is kept and I have also a preference for not fettering the discretion of the bank as to the nature and the amount of the cover they keep for their demand liabilities. It seems to me that if you lay down a rule that 35 per cent. has always to be kept as a minimum against demand liabilities you do more or less immobilise that amount of reserve and encourage the view that the reserve is to be looked at and is not to be used. The Federal Reserve System of the United States has of course very elaborate rules on this point. I confess they always seem to me to have been imagined out of the misconception that the greatest danger is the habit of a banker to run up demand liabilities and not to provide cash against it. The natural result was that in America, where that had been the danger to guard against in the case of small banks throughout the country, it led to the belief, which was quite common, if I may judge by the newspaper and other articles that appeared in the United States when the Federal Reserve System was being started, that a bank was never really safe unless it kept 100 per cent. of the liabilities in cash. I should not personally feel attracted by the idea of laying down a statutory provision that either the Imperial Bank or any other bank in India must keep as a minimum 35 per cent. of its liabilities in certain forms.

309. (*Chairman.*) Would it or would it not meet the case that your objection to the proposal on the ground that it tends to immobilise the reserve is to some extent met by the system permitting an extension of the note-issue under conditions as to tax in times of pressure on the currency?—That is the suggestion I have myself put forward, but that is in respect of a cover against the note-issue, and it is rather a different question from the one which Sir Henry Strakosch was putting in respect of cover against demand liabilities.

310. That is first what I was trying to clear my mind about. Would that not react on the proportion of the amount of deposit liabilities and reserve?—If you have rules as regards the proportion and the amount of the assets that you hold against the note-issue, you do get an immediate reaction in the banking department on the amount of the cash or cover held against demand liabilities. As demand liabilities increase, a prudent manager of a bank wants to increase his cash. The normal way in which it is done in the case of a bank of issue is by an additional transfer of notes from the issue department to the banking department, and you require larger cover in your issue department and you hold funds in cash in the banking department.

311. (*Sir Henry Strakosch.*) Is it correct to say that that reserve is a precautionary measure for a possible sudden increase in the note circulation, the deposits being potential currency, and in times of crisis these deposits become suddenly increased and withdrawn in notes when these notes would be required to be covered by the prescribed reserves. It is therefore really a precautionary measure for a possible sudden increase in the circulation?—I accept that. It is, of course, also a precautionary measure against any tendency on the part of the bank to make advances or create demand liabilities against itself without providing sufficient cash against them. The real truth to my mind is that you want to see for a central bank two different sets of accounts, one for the issue department separate from the Banking department, on the British lines, and then another with the two amalgamated. When I was at the Treasury I used to keep regularly a Bank of England return drawn upon Continental lines. It is now published every week very much in that form in the Economic Review of the foreign Press. But my objection I think, the essence of my objection such as it is, is to the suggestion to have a statutory figure for the minimum cover for demand liabilities. That is imposing a limitation on the discretion of the banker in cases where he can act better if left to his own discretion.

312. You agree the central bank has to be particularly cautious and to see further ahead than a commercial bank?—I agree, but at the same time I think one does want to be careful not to pander to the popular belief that a reserve is there only to be looked at and not to be used. That is the effect of laying down a minimum.

313. (*Chairman.*) Continuing Sir Henry Strakosch's questions on another point, you propose that special provisions should be made for the Imperial Bank to undertake to supply the funds required by the Government of India in London. Have you in mind a binding engagement to effect the transfer at the prescribed exchange rate?—The suggestion is that the bank should enter into an agreement with the Government of India to supply sterling month by month, not at a prescribed rate, not at a single rate prescribed in advance, but at some rate for which various alternatives are suggested, the one favoured being the market rate of the preceding month. We had in mind that the Imperial Bank might enter into something in the nature of a contract for a period probably terminable at short notice to supply all remittance required at that rate, it being of course understood it would be obligatory on the part of those who require money to give ample notice of the amounts likely to be wanted. Then, subject to any provision as to the termination of the arrangements it would be an obligation on the bank to carry out these transactions.

314. Subject to any provision as to the termination of the arrangement, it would be an obligation on the bank to carry out these transactions?—Yes, that is what is suggested.

315. That leads to the next question. Do you think that the bank can safely enter into such an engagement? To make clear the meaning of that question I will ask at the same time, would such a provision not mean giving the Government of India a preference in the matter of remittances as against the general public?—As regards the rates suggested there is no suggestion of preference. That would be merely for convenience. You might alternatively take the market rate of the day of the transaction. Is the suggestion that the Government of India would have the first call on a possibly limited supply?

316. Precisely. If there was not enough to go round, the Government of India would get it all and the public would get none?—Yes, if there was not enough.

317. (*Sir Henry Strakosch.*) You might, by using persuasion, get the general public under such an arrangement to postpone their remittances in order to enable the Imperial Bank to meet the contractual requirements of the Government?—The public have *ex-hypothesi* a right under any of the systems adumbrated here to take rupees to the Imperial Bank and get sterling at a fixed rate and at a minimum rate and that right is unlimited.

318. But why should the Government not rely upon that condition?—In fact the Government can only get sterling in London provided they pay for it in India. There is no suggestion that the sterling should be advanced to the Government, it is against payment in India.

319. I appreciate that. But you just said that, if the supply of sterling is not sufficient, the system would break down. You suggest by that that the public should be content to rely upon the conditions laid down under the statute that the bank has to maintain exchange within the gold points. Why should not the Government also be satisfied with that consideration, and why should the Government need to make a special contract?—I do not think

there is any suggestion that money should be reserved to the Government. The bank's obligation to supply exchange at the gold point is unlimited, provided it is paid for in internal currency. The fact remains that the Government require remittances which are a very large figure in proportion to the total each year. You might, instead of this arrangement, have an arrangement corresponding to the present one by which Government bought in the market and sold Bills in London. I do not see that would put the bank in a better position than this arrangement. The bank would know better where they were under this arrangement than if the Government were doing its exchange business on its own account independently of the bank, though it is an alternative that might be adopted if preferred.

320. The impression upon the general public would be that there is a scarcity of foreign exchange, that the supply of the Imperial Bank might run dry by supplying the Government with exchange instead of the public, and in the circumstances, would it not be better to omit this special provision in the contract?—If this special provision, which is only put forward for consideration, were omitted, I think it would be important that you should have some definite understanding as between the Government and the bank as to the methods by which they are to secure the very large amount of sterling which they require annually. The trouble, of course, is that at some stage every now and again, the question of borrowing by the Government in London in order to prevent the demand for exchange exceeding the available supply will arise under any system, and on that point the Imperial Bank and the Government will have to fight it out. That must anyhow happen. Not that they would necessarily disagree, but that is the position, especially if the Government is engaged in financing a capital programme of the kind that is before the Government of India for the next generation.

321. Would it, therefore, not be sufficient to say in the agreement that the Imperial Bank should undertake to purchase sterling exchange on behalf of the Government?—If that was decided to be the better method of dealing with this difficulty, I should have no objection. But I should have thought the bank itself would like to be protected by some contract of this sort.

322. (*Mr. Preston.*) If the bank gives you a contract of a monopoly right and supposing that it worked on average monthly requirements, would that not put it in the position of gambling in exchange?—An exchange bank is always in the position of being able, if it wants to, to gamble in exchange—not necessarily to its profit. But I don't think this would be an encouragement to anybody to gamble nor that the Imperial Bank would desire to gamble.

323. (*Sir Henry Strakosch.*) Moreover, under the sterling exchange standard, sterling would be one of the reserves of the bank?—Quite.

324. Therefore, the holding of sterling would not be a gamble but would be the holding of a very desirable asset to be set against the note-issue?—The Bank would obviously have to regulate its holding of sterling with reference to its knowledge of the demands that are going to be made for sterling by one of its biggest customers, namely, the Government. It must be desirable to give as much notice as you can of the time and amount of those requirements as far ahead as may reasonably be arranged. This suggestion was made as much from the point of view of the Bank as from that of the Government.

325. (*Sir Purshotamdas Thakurdas.*) In paragraph 6 of Mr. Denning's memorandum regarding transfer of management, it is stated, "if, therefore, the Imperial Bank is to be given control of the note-issue and the Paper Currency Reserve, it must take, at any rate, a part of the responsibility for the maintenance of exchange and for the remittance to London of the sterling requirements of Government." It indicates that you expect the Bank at least in part to take the responsibility for the maintenance of exchange. The Bank transfers the funds, therefore, at the minimum rate of the day or of the previous month?—It is a small part in a way of the bigger responsibility that is suggested being put on the Bank, namely, of undertaking always to give sterling exchange or exchange at the gold point and if it is going to undertake that obligation, I think it would naturally ask that it should be in possession of as much knowledge and control as may reasonably be given to it with regard to the requirements of a particularly large remitter.

326. Does it not actually lead to temptation under certain circumstances to gamble in exchange?—I do not think so. It has got to have very considerable control over exchange if it is to manage the currency system, because it will have to regulate the amount of its sterling holdings and its holding of foreign Bills, to use the wider phrase, with reference to the demands on the exchange from time to time. It is after all a responsibility that is undertaken by every central Bank.

327. That is transferring the control of operations in exchange from the Finance Department to the Imperial Bank?—That is very much what it comes to.

328. In paragraph 8 of Mr. Denning's memorandum on a Gold Standard for India, you have this: "Undoubtedly, the ideal to be aimed at is the system now in force in Great Britain under which the note is the sole full legal tender in circulation, and the gold value of sterling is stabilised by the statutory obligation imposed on the Bank of England to buy and sell gold at rates corresponding roughly to the par of exchange." Is that system likely to be feasible in India with the Imperial Bank?—That is, I think, very much the system which is suggested as the first stage in paragraph 10 of the same memorandum in the programme of the advance towards the gold standard.

329. Does the system in vogue in the Bank of England carry with it any responsibility to maintain exchange?—Certainly it does. It carries this responsibility, that the Bank of England has to work its discount policy and its credit policy very carefully in order to maintain its statutory reserves and still be able to give gold for export at the gold point.

330. Why do you not rely on the Imperial Bank in the same way instead of making it responsible for the maintenance of the exchange?—I do not think there is any suggestion that we have made to the contrary. The responsibility of the Imperial Bank will be exactly the same as the responsibility of the Bank of England.

331. If you think that is feasible with the Imperial Bank, why do you saddle them with any responsibility to maintain exchange?—That is only another way of putting the same thing. The responsibility is the liability to give gold or sterling or whatever it may be or to buy and sell gold or foreign exchange at fixed rates. That is the responsibility that is given to it. When you say that you are giving it responsibility for the maintenance of exchange, it is only meant to say the same thing in other words. I look upon that as involving the responsibility for the maintenance of exchange.

332. It amounts to the same thing as the responsibility of the Bank of England in buying gold?—Yes.

333. (*Chairman.*) This will lead us to a discussion of the gold exchange standard in comparison with the sterling exchange standard with which we are at present dealing, so that I think it would be convenient if we conclude the questions on the sterling exchange standard and then resume the discussion which you have just raised in connection with a fuller discussion of the gold exchange standard. The last of the series of questions which I am asking on behalf of Sir Henry Strakosch deals with

another aspect, viz., would it not be preferable to express the Reserve requirements in percentages of the Note issue rather than in fixed amounts?—It is largely a matter of individual preference which form you take. There are objections I always feel to expressing the amount of gold, for instance, that is to be held in a note reserve in the form absolutely of a percentage proportion as, for example, is done no doubt in the United States and other places. Because, it means that at the point when you are getting near the minimum percentage, a withdrawal of a lakh of rupees in gold compels you to force a larger contraction of the currency. Suppose the proportion is 33; you would force a reduction of 3 lakhs in the outstanding circulation for every lakh if you withdraw any gold at that stage. It means that it tends to make contraction rather violent and expansion rather too easy as compared with a fixed minimum above which you get an addition or contraction of one rupee of circulation for one rupee of cover.

334. (*Sir Henry Strakosch.*) But in fact, that would be the case any way, even if you express it in a different way—for instance, if the Bank feels that a reduction of the reserve requires a measure to be taken?—In fact, it is very nearly so. But the Bank has a little more elasticity as to the moment of its action if it is getting near its minimum fixed figure. It no doubt does take very activo steps in any case, but when it is getting down to its minimum it does not have to reduce 3 lakhs of circulation for every lakh that goes out, but only one lakh.

335. But do you not agree that it is a good thing for the public to appreciate what the Bank return really means and take warning of a reduction in the reserve percentages when they appear in the Bank return?—I attach very great importance to having a currency system which is reasonably intelligible to a fairly large circle. But I am not sure that a proportion is any more intelligible than a fixed figure.

336. Except to this extent, that one presents the matter in a more concise form to the public than if the public had to work out the reserve ratio itself, which, I believe, is almost instinctively done?—In England we have not got proportions, and it is done instinctively. You have only to add and subtract, but not multiply. I think the only real answer is that I have a personal preference for the fixed minimum rather than the percentage method throughout, but there are advantages and disadvantages in both methods, and it must ultimately be a question of a balancing of those advantages.

337. (*Chairman.*) Is not the objection that you advanced with regard to the forced redemption of the currency met by the mechanism as to the extension under tax to a higher limit?—That applies under either alternative.

338. (*Sir Reginald Mant.*) With regard to the question of fixed amounts, is it not one objection that it requires legislation to change the fixed amount? They do periodically require readjustment as the note issue increases?—Yes; that is possibly an objection. But at the same time it may possibly be advantageous in requiring the matter to come before the legislature from time to time. Sir Reginald Mant is no doubt thinking of the position before the war, under which the total of the Government securities in the paper currency reserve had to be altered by an act of the legislature from time to time, whereas it might have been reasonable to give a proportion right through and avoid that legislation. I have endeavoured to meet some of these difficulties in my plan by making the gold figure a minimum. I have endeavoured to make my system flexible by leaving the amount of sterling securities and rupee securities other than Government of India securities variable within the figures available. But I think I should answer Sir Reginald Mant in much the same way as I answered Sir Henry Strakosch, that there are both advantages and disadvantages in having the matter come periodically before the legislature for altering the fixed figure.

339. To come back to the amount of rupees that you think should be held in the reserve, you suggest that, normally, the reserve should not be allowed to exceed 50 crores, but it should be laid down that under no circumstances should the rupees so held exceed one-third of the total liabilities. What would happen if this limit is exceeded? Will the Bank be compelled to melt down the excess and sell it as bullion?—That is what is suggested, that the Bank would have to have it melted and sold as bullion, but would at the same time have a right to withdraw one rupee from the amount of cover required for every four that you melt down.

340. Whatever the strength of the silver market, there would be sales of silver?—Or they would have, temporarily, to hold it as part of the cash in the Bank. It ought not to be a frequent occurrence.

341. Would it not be reasonable to allow the Bank in those circumstances to hold rupees in the currency reserve by decreasing the amount of the rupee securities?—It would, I think, possibly be a way of solving these difficulties which might periodically arise. But the objection to that in the actual form would be that if the price they pay to the Government for the right of note issue depended, among other things, on the amount of their rupee securities and the interest thereon, they would then be holding these surplus rupees at the expense of the Government. If the result was to reduce the amount of their rupee securities they would pay a lesser amount to the Government in consideration of their monopoly of note issue. It depends on the terms on which the profits of the note issue are accounted for by the Bank to the Government. If you had a formula which did not depend on the amount of the rupee securities or the amount of the invested portion of the reserve, or if you included silver above a certain point as part of the invested portion of the reserve, then it would be at the expense of the Bank and not at the expense of the Government.

342. Apart from that difficulty of profits of investment, would there be any objection to having a limit simply to rupees and rupee securities instead of one limit for rupees and the other for rupee securities?—Of course, there is the economic side of that objection. I was giving it from the budgetary point of view—the loss to the Government revenue; but there is also the economic loss to India from the holding of an unnecessarily large amount of bullion; and if the Bank chose to carry 100 or 150 crores of rupees, you would have the loss on that—on the capital spending power of India.

343. But we are assuming that the market was not available and the rupees had to be carried?—The rupees have either to be carried or sold. If you carry them, you lose the interest and if you sell them, you make a capital loss at an inconvenient time. It is always difficult to know whether it is wise to take that loss or not. It is a problem before the Government and before this Commission at present whether we are wise in carrying as large a rupee reserve as 90 crores, or whether it is wise to sell some of that even at a capital loss on the ground that you would get in place of hoarded bullion some productive capital investment. The object of this provision was, I think, to put a certain amount of penalty on the Bank for unwisely risking the position in which there were too many rupees in circulation.

344. But could they not have avoided it to some extent by altering their credit policy?—They could avoid it to some extent if they altered their credit policy and also it will probably be a question of how comfortable they choose to keep themselves against the possible risks of sudden demands for rupees. If they relied rather on coinage when extra rupees are clearly required than on carrying a large reserve all the time, they are less likely to overtop the maximum. I think some provision is required

to prevent the easy method of getting rupees coined *ex majori cautela*.

345. When the redundant rupees have been absorbed this difficulty is not likely to arise?—It is with a view to the future rather than the present. One recognises that there are too many rupees for any reasonable reserve requirements at the present moment. One of my suggestions is that the Government of India should take 18 crores right off. I think you would certainly have to add to what I have said here, that the condition that the rupees should not exceed one-third of the total could not come into force until such a time, at any rate, as there has been a fall of silver to below 40. That would be merely a temporary arrangement. I agree there is a risk in the next year or two even if these 18 crores are taken off by the Government of India. A further return of rupees from circulation might take the figure above the proportion. I was legislating for the future when things are normal.

346. (*Sir Henry Strakosch.*) May I ask whether the inducement to issue an undue amount of rupees is not greater so far as the Government is concerned than the Bank, and would it, for that reason, not be advisable to limit the issue of rupees coined by a provision that an addition to the rupee coin currency should only be made at the request of the Imperial Bank?—I would welcome that condition. I think it was implied though it was not stated.

347. Of course, a seigniorage profit might be particularly attractive?—That condition was implied, though at the same time the seigniorage is not particularly attractive to the Government in this arrangement, because they have to supply the value of one rupee out of every four for the reserve. But there has been, I think, in the past a tendency to coin rupees with some undue freedom though not for the sake of the seigniorage. It went to the gold standard reserve and not to the Government's revenue.

348. (*Sir Reginald Mant.*) Would it clear up the arrangements you have in mind if they are put this way. At present, as you know, the Government remits freely when there is a strong exchange. What would be the arrangements in future; would they be in a position to take advantage of the strength of the market, or would they only have to adjust the budget, and would they only get their requirements from month to month?—Our suggestion is that they should not keep any balance in London of any considerable size except for the purpose of their monthly requirements. I think the present position is largely a matter of chance—there is a profit from the point of view of the Government revenues from remittance at an earlier date, not merely because they can take advantage of the favourable exchange, but still more because they do not get interest from the Imperial Bank on their balances in India and they do get interest on anything they send to London and lend out. I think that is an adventitious circumstance which was hardly in view when the Imperial Bank took on its present contract. It has no kind of sacrosanctity.

349. You mean to say Government would lose and the Bank would gain by a change in the arrangement?—That is one of the things that would have to be taken into consideration in any new arrangements for payment by the Government to the Bank or by the Bank to the Government for services rendered. It is undoubtedly a point in which there would be additional possible profit to the Bank, and it will have to be taken into consideration in the arrangement between the Bank and the Government. But of course if the Bank is to be responsible for the major question, namely, the maintenance of the gold points for the exchange, I think, they must have some means of controlling the action of Government in regard to remittance for Government's own purposes. The Government could hardly come down on the exchange market at the maximum and remit the whole year's requirements or try to remit the whole year's requirements and expect the Bank to take the consequences.

350. No, I do not think they would?—The arrangement can be made without any net loss to Government. Of course this will be taken into account in the general arrangements between the Bank and Government.

351. Government would not then lose interest on the whole?—It might or it might not. I think it will be true to say that the tendency might be for them not to get such favourable rates and to lose some small amount in interest.

352. The Bank will gain by having larger sums of Government balances instead of their being remitted to London?—Of course, the size of the Government balances partly depends on the remittance policy, for example, remittances made as against the paper currency and additions made in the Government balance against sterling. But it would perhaps tend either to increase the total amounts of the Government balance in India and reduce the amount in London or to economise the Government balance altogether. In the latter case the Government would get a return and the Bank would not get it. It is a point which will have to be taken into consideration with reference to the question of remuneration.

353. (*Sir Henry Strakosch.*) Would not the point be met by giving the Government all surplus profits of the Bank after paying a moderate dividend to the shareholders?—I think that question will have to be put to the shareholders of the Bank. As I said yesterday, the Government take no share in the profits of the Bank at present. One of the possible methods of arriving at a solution of the really difficult problems which will arise when the Commission is ready to deal with them is for the Government to take a share.

354. (*Chairman.*) Let us now pass to the gold exchange standard. The mechanism is, generally speaking, the same. It will therefore be possible to deal quite briefly with the gold exchange standard, dealing in fact with the differences between the two standards. In the first place do you consider it an essential feature of the gold exchange standard that gold coin should be put into circulation?—No. It is not an essential feature, either of a theoretical gold exchange standard or even a theoretical gold standard.

355. It has commonly been regarded as the central feature in the past, but that you ascribe to the circumstance that a complete apprehension of the gold exchange standard has not been arrived at?—Yes. That was the Victorian view of the gold standard.

356. Supposing anyone were to recommend the adoption of a gold exchange standard, one might eliminate any necessity for considering means for promoting the circulation of gold?—In theory, I think the circulation of gold coin in any form is wasteful and undesirable. The difficulty is to satisfy the public with a currency system in any country in which they are refused gold coin.

357. That is one of the chief considerations, but it is not an essential feature?—I agree that it is not an essential feature of the gold exchange standard that there should be a gold currency in circulation.

358. That is a consideration which perhaps will be more conveniently dealt with in connection with the gold standard?—Yes.

359. If it is not an essential feature, and if gold coin were not put into circulation, would the gold exchange standard be more expensive than the sterling exchange?—I think so. Because you will have an additional liability to provide gold in certain circumstances for external purposes as well as sterling and you would certainly have to keep, gold: theoretically you need not keep gold in your reserve in a sterling exchange standard, but in practice it will be difficult to set up such a system with no gold from the point of view of popular opinion both in India and in England. I think even the Bank of England would dislike such a system. A

system where there is no gold will not be liked by anybody. Apart from that the gold exchange standard does necessarily involve keeping an important proportion of the reserve in gold.

360. Assuming that in practice you must keep some of the reserves in gold under the sterling exchange standard, would it be necessary to keep a higher proportion under the gold exchange standard?—Yes, because you only want your gold under the sterling exchange standard, and it is in effect kept only, in order to assist the Bank of England in maintaining the convertibility of sterling into gold. Under the gold exchange standard, gold is kept to protect India against the liability of having to deal with a situation in which sterling has gone away from parity with gold. Gold is needed in view of your obligation to maintain the convertibility of your rupee into full value currency in any country in which gold is actually on a par with the local currency.

361. Would not what was adequate for the first purpose, *i.e.*, under the sterling exchange standard, be adequate also for the second purpose under the gold exchange standard?—Yes.

362. On what assumption are you saying so?—I think you could say that gold is unnecessary only on the assumption that the probability of sterling departing from parity with gold is so remote that you need keep no reserve against it.

363. What order of difference between the two amounts do you contemplate for the two purposes?—One wants to have it clear what the liabilities you undertake would be—it would, I suppose, be to maintain the parity of the rupee with sterling, or say, the currency of Amsterdam, the florin or the American dollar, whichever of these three did not depart from gold. I assume for the moment that you do not want gold for circulation in India. In order to do that, you should not rely solely on sterling securities. I do not think you ought even to rely on sterling securities *plus* gold, but you would probably have to hold 40 or 50 crores in gold, which you would otherwise have been able to hold in sterling securities.

364. You mean an additional 40 or 50 crores?—No. I mean 40 or 50 crores of gold in addition to sterling dollar or florin bills—of course, in all these things one is in a theoretical region—because it is extremely difficult for the Government of India and might be difficult for the Imperial Bank to manage a system of this sort though it is a system which is managed by the Central Banks on the Continent at the present time and though they keep in their portfolios bills of various gold standard countries.

365. Agreeing that it is theoretically sound to keep the reserve in, say, dollars or in the coinage of other gold standard countries, what is the necessity then of keeping any further balances in actual gold at all?—I suppose even in a theoretical sense you want to provide against the contingency that every other currency has gone off parity with gold and still you are gold. It is a remote region but that I think is essential.

366. When one is considering the practical necessity, both from the point of view of working the exchange and of public estimation, does not it make it a necessity to keep the gold balance in addition to the foreign currencies?—In practice most of the countries who are in a similar position do the same. I suppose one would perhaps be safe if one had a portfolio containing American Dollar, Dutch florin, and German and sterling bills even if there was no gold.

367. (*Sir Henry Strakosch.*) I observe Mr. Denning's proposal does not provide for gold to be given in exchange for rupees but for foreign exchange. Therefore he does not contemplate any holding of gold, or rather he does not contemplate the obligation of the Imperial Bank to give gold for rupees but merely foreign exchange?—I do not suggest that gold is absolutely necessary, but Mr. Denning's proposal does suggest that gold will be required in his reserve.

368. His reserve provides for a minimum holding of gold?—Yes, but if you look at the provisions he makes with regard to the establishment of a gold exchange standard you will see he merely suggests in his memorandum, under clause 7, sub-section (D) that all bank notes should be payable on demand in rupees or foreign exchange at the option of the presenter; that the currency of the country would consist of (*a*) overvalued silver rupees convertible into foreign exchange which would be the equivalent of gold and (*b*) notes convertible into silver rupees or foreign exchange as above.

369. That is the whole obligation?—Yes.

370. Therefore would it not be better to say that it is not essential under a gold exchange standard to hold gold or undertake to give gold for domestic currency, but that it would nevertheless be advisable to hold gold so as to avoid the ill-effects of releasing at an inopportune moment the great amount of securities that might be held in the form of bills on gold standard countries in which those securities are payable?—I accept that statement: under neither system, the sterling exchange standard nor the gold exchange standard is the holding of actual gold absolutely essential. But some holding will probably be desired or desirable in both cases, and it would be a larger one in the second case.

371. (*Chairman.*) I should like to ask you one more question on this point. Supposing under the gold exchange standard system or indeed under the sterling exchange standard, you were to hold part of the reserve in gold, in what form do you propose it should be held and in what manner should it be used?—You mean the location, and in what form, either bullion or coin?

372. Yes, and in what way should it be used. How should it be brought into account?—The probability is that you will in fact continue to hold it long after you have failed to remain on the gold exchange standard in case of a crisis. Theoretically you hold it I think in order to assist you to liquidate your securities at a time of difficulty, so that you may not be forced to sell at a considerable loss when the market could not absorb them or might assist that market to absorb them by releasing a certain amount of gold that would enable it to absorb some of your securities at a better price.

373. Under what conditions will the public be able to obtain possession of that gold?—It would not be the public itself. The public itself will not have any claim to that gold. They will have a claim to be able to convert your rupees or notes into the currency of some other country which has not departed from the gold standard and see that their currency is at par with gold. Certainly it might be desirable to give the Bank an option of giving gold instead of foreign exchange. That will make the reserve a little bit more useful.

374. You would not cover it by an acceptance on the part of the Bank to give gold against internal currency?—No.

375. Would it be possible to frame conditions which would ensure that the gold is used for the purposes of export?—I think it would be very difficult, unless your application of the system took the form of giving gold in some non-Indian Port, *i.e.*, in some gold standard country.

376. Where does the difficulty lie? Would it be a danger of gold being exported to some neighbouring country and reimported?—I suppose it would be possible so to draw a statute that there is no liability to treat a port in say, Kathiawar, as a port to which you could export gold from Bombay; presumably that could be avoided. You would have difficulties in laying down exactly what constitutes the export of gold unless you have a simple rule that delivery of gold is made in Europe or America.

377. It might be necessary that the Bank itself should be the actual shipper?—Yes. It seems always difficult to enforce a rule that gold is given only for export. I understand it is not so in England. I do not think there is a rule at present that gold is

given only for export. I was under the impression that it is only for export but I was looking at the statute the other day, and I could not see any limitation.

378. (*Sir Henry Strakosch.*) I think that limitation comes to an end at the end of this year?—You cannot get gold coin but you can get gold bullion, either for export or for internal use.

379. (*Mr. Preston.*) You can obtain gold bullion and then you can exchange your gold bullion for coin. That is how we are supplying India now. For the time being we can buy gold either in the London market or New York, but the bank reserves to itself the right of saying, "I am not going to give more sovereigns" it reserves to itself, the right to withdraw that facility.

380. (*Sir Reginald Mant.*) You said, Sir Basil, that for the sterling exchange standard it is not necessary theoretically to keep actual gold, but in practice the Bank of England might require us to keep gold to support sterling. Do you think that the Bank of England can reasonably require us to keep gold in support of sterling. Do not other countries such as Japan hold sterling securities to support their exchange?—They do in practice hold considerable amounts of gold in addition to securities both in England and America. As a matter of practice they do so, and I had in mind one of the resolutions of the Genoa Conference, that is the resolution 11 of the Genoa Conference on Currency. It is suggested that one of the conditions of a country participating in the Convention of international exchange standard countries would be the maintenance of currency at its gold value by the provision of an adequate asset, not necessarily gold. It is further suggested that certain of the participating countries will establish a free market in gold and then become gold centres, and it is suggested that participation in the convention would be conditional on either the keeping of some gold reserves or the payment by the participating countries of some sum to the Central Reserve country as a condition of participation without keeping the gold reserve.

381. Might I suggest to you the desirability of keeping a certain gold reserve not for the purposes of supporting sterling, but in the interests of India itself so as to have cash in case of a large fall in sterling securities?—I think it would be very difficult to prove that it would be economical to do so. The extra interest earned over a period of years by not holding gold would in any probable hypothesis exceed the loss incurred by not having gold at the moment of liquidating securities.

382. Then you think we should keep gold not in the individual interest of India, but as a contribution of the general interest?—Yes, that is the theoretical justification, but the ordinary man is not always a currency expert and he would not feel happy unless we have a certain amount of gold.

383. (*Chairman.*) You have told us, Sir Basil, that you also lay emphasis upon the retention of a certain amount of gold as a protection of the security market?—Yes, that would be one of the justifications but my impression would be as I said to Sir Reginald Mant that if we are merely considering the most economical method of keeping the reserve, we shall probably lose more by not earning interest on the proportion locked up in gold than by having to sell securities at a reduced price at a moment of crisis.

384. You referred to the greater expense involved in the larger gold holding required under the gold standard than under the gold exchange standard. Are there any other objections which occur to you under the gold exchange standard as compared with the sterling exchange standard?—Theoretically I think it is a slightly better system perhaps than the sterling exchange standard, though it costs a little more, but it is a little more cumbrous without in fact protecting you to any reasonable extent against one of the two risks, against which the sterling exchange standard does not protect you, I mean against the rise in the value of silver above 48d. It does theoretically protect you against the possibility of sterling and gold being divorced, but it is not very easy to conceive circumstances in which many countries would be able to remain on gold if sterling had been driven away from gold.

385. To raise another aspect of the advantages of the two systems, can you tell us what relative percentage of India's foreign trade is with sterling currency countries?—In 1924-25, of the exports, 24 per cent. were to the United Kingdom, 12·7 to the rest of the British Empire. I am afraid I have not got separate figures for Canada or other non-sterling using parts of the British Empire. Of the imports, 54·1 were from the United Kingdom, and 8·1 per cent. from the rest of the British Empire, *i.e.*, 67·2 per cent. of the imports and 36·7 per cent. of the exports were from India or to India from the British Empire or to the British Empire.

386. Another material consideration is: Is it possible to ascertain what percentage of India's foreign trade, including the visible and invisible constituents of that trade, is settled in sterling currency countries?—I have no figure. I think it is generally agreed that over 90 per cent. of the trade is settled through sterling using countries.

387. Does the very large percentage of the trade which both takes place directly with sterling currency countries, and the still larger percentage which is settled in sterling, suggest that there is an advantage in linking the Indian currency to sterling?—Yes. May I add that during the war, had it not been for the rise of silver, it is quite probable that India would have done what Egypt did and remained linked to sterling, keeping her exchange all the time at par rather than allow her exchange to wander away from parity with sterling. Probably she would have done so. But on the whole it was for India's good that she did not. That would, of course, have meant a very large rise in Indian prices.

388. (*Sir Purshotamdas Thakurdas.*) Have you any figures handy about the operation of India's trade with the United Kingdom 15 or 20 years ago?—I have only got them since 1913. That is, I have the proportions. I have not actually available here the actual figures but, of course, there would be no particular difficulty in getting these figures supplied by the Secretaries very quickly. In 1913 the proportions were:—

> Exports, 25·1 per cent. to the United Kingdom, 16 per cent. to the British Empire; imports, 62·8 from the United Kingdom, 6·9 from the rest of the British Empire.

I have a handy volume here of Indian trade statistics in a rather interesting tabular form. There are, however, plenty of statistical data to answer all these questions.

389. Trade since 1913 with the United Kingdom has gone down, has it not?—That is on the statistics to date; of course, there has been a recovery since the war. The exports appear to have gone down by 1 per cent., imports by 8·1 per cent. The exports to the United Kingdom are 24 instead of 25, and to the rest of the Empire 12·7 instead of 16. There is a fall in the case of exports. In the case of imports it is mainly a fall in imports from the United Kingdom.

390. The sterling exchange standard has apparently risen only in the sense of the running away of sterling from the gold point?—Up to 1914 nobody distinguished between the two.

391. I think for the first time now there is a mention of the sterling exchange standard?—It is not absolutely the first time. It was I think stated casually by more than one Commission that it is in fact a sterling exchange and not a gold exchange.

392. How then would it affect our export trade with other countries like Japan, for instance?—It is very hard to say. The two standards would have exactly the same effect. There is no difference. I think in ordinary times for practical purposes I should certainly be in favour of keeping Indian currency at par with sterling rather than with gold, because the sterling exchange is the one that really

matters. On the other hand, once currency goes off parity, there is no knowing how far it may be going. Therefore, for the sake of safety you do want it to remain on a par with gold.

393. It would affect India prejudicially in the case of a very big depreciation?—Yes.

394. And would it not be desirable that India should remain on gold rather than sterling?—This is a matter which was argued before the Babington-Smith Committee but in circumstances so very different that it is not very easy to translate them into present-day conditions because at that time there was a big depreciation in sterling. Their difficulties were quite different.

395. The difficulty to my mind is the function of the Imperial Bank and the liability which it is proposed to be put on the Imperial Bank. I understood you at that time to say that the responsibility at present rests on the Bank of England and that it is the same as that proposed to be put on the Imperial Bank. Will you refer to Mr. Denning's note, the last sentence of para. 10 (1)?—Expanded, that sentence means that the maintenance of the exchange standard would not depend on the Bank's selling sterling at about the lower gold point but would depend on the liability to give foreign transfers on the presentation of notes of Rs. 10,000. The Bank would in practice tend to buy sterling at slightly above the gold point. It is the statutory obligation to give foreign exchange for notes of the denomination of Rs. 10,000 that fixes the lower gold export point. The difference in standard does not make a material difference, not from the point of view of the automatic stoppage of exchange. The absolute exchangeability of sterling in England into international currency is maintained by the liability to buy and sell gold. The position in India is that under this suggested gold exchange system the only unlimited legal tender is the note including the note printed on silver, that is the rupee, and the exchangeability of that inconvertible currency into foreign exchange is maintained by the liability to buy or sell foreign exchange at the fixed points. It is only different in form; in both cases you get convertibility by statutory regulation.

396. (*Mr. Preston.*) That is in so far as you suggest that it should be applied to India, you do not mean to empower the Bank of England to give us foreign exchange?—It does in practice give us gold.

397. How can you say that it does in practice give us Foreign Exchange? If I tender notes and get gold for export, I get gold for export. You can hardly say that the Bank of England is in practice giving me foreign exchange?—I do not agree. It is giving you the means of obtaining Foreign Exchange.

398. (*Sir Henry Strakosch.*) Is it not right to say that if the Imperial Bank held foreign exchange on a gold standard centre that foreign exchange could immediately be converted into gold on presenting notes at the mint in that particular country? Say, for instance, the Imperial Bank had dollar bills. Those dollar bills would be discounted in America. If you go to the United States mint, you can obtain gold at the standard price fixed under their mint act. Therefore foreign exchange is immediately convertible into gold and that is contemplated under the Genoa Resolutions in every one of the gold centres. So foreign exchange at a fixed price is equivalent to gold at a fixed price in the gold exchange countries? —That is so, I agree.

399. (*Sir Purshotamdas Thakurdas.*) Under the gold exchange standard choice is to be left to the Imperial Bank of the extent of their reserves in foreign currencies?—That of course does raise a difficulty, but it is a difficulty that arises more with reference to the payment to be made by the Bank of the monopoly of note issue. I think it would have to be left to its free choice as to how it would constitute its portfolio of foreign bills at any given time.

400. (*Chairman.*) There is one final question on this point that I desire to ask. As I understand it, under a gold exchange standard, as you have sketched it, it will be left to the free choice of the Imperial Bank to what extent it would hold its foreign gold exchange reserves in any of the foreign gold currencies allowed under the statutes?—Yes.

401. In view of the facts which we have noticed as regards the amount of trade which is settled in sterling, practically it will be necessary, I imagine, for the Imperial Bank to hold a very large proportion of those reserves in sterling?—Yes, in practice the proportion held in sterling in the portfolios of the Central Banks of the world is a very large one. It is very likely that in normal circumstances they would feel it unnecessary to hold actual Bills other than British sterling bills. If the Imperial Bank had undertaken an obligation such as it is proposed, some arrangement would be necessary by which it could immediately obtain funds in another centre if it had undertaken to give funds at any other centres.

402. Its holdings in other countries, for instance, of guilders and dollars, would rather be a tribute to theory than of practical utility?—Probably

403. I now propose to pass from the gold exchange standard to the gold standard. Underlying your memorandum and those of Mr. Denning and Mr. McWatters on the subject of the gold standard we find great emphasis laid upon the desirability of limiting the rupees as legal tender?—Yes.

404. That, I take it, you are putting quite rightly in the forefront as a point of cardinal importance Let me ask you some preliminary questions on the next heading: what, in your opinion are the disadvantages of the right of unlimited legal tender now attached to the rupee?—They are of course a matter of experience. I think the main disadvantage is perhaps that to a very great extent the rupee is the same as the note but printed on a particularly expensive material. When that note comes in for exchange to be converted into foreign currency, it is extremely difficult to make any use of the valuable material on which it is printed, and you therefore have to hold a reserve against this note printed on an expensive material not very greatly less than the reserve you have to hold against the note printed on such a material as paper. It is very difficult therefore to be sure that you are maintaining the convertibility of the rupee at all times into international currency unless you are both maintaining something in your own central reserve against part of that note and paying the expense of having a large part of the cover of that note actually in circulation at the same time. It is then this that it is convertible coin circulating as unlimited legal tender and you need as long as that is your main form of unlimited legal tender to maintain a reserve at the centre against it of an amount not much less than you would have to maintain if you had to maintain a paper note in so far as it is really an unlimited legal tender doing the work of subsidiary coin.

405. Will you explain to us how you get rid of that disadvantage by limiting the right of tender attached to the rupee?—By having your sole unlimited tender a fully valued coin, namely, gold: against the paper note it is quite easy to keep reserve at the centre when the note comes in and against the gold coin when it comes in out of circulation you need no reserve.

406. I might summarise what you have said by saying that it is a very expensive form of note?—Yes. You have to distinguish between the two functions of the rupee; one is its function as a subsidiary coin, and the other is its function as unlimited legal tender, and it is only that part of it which is functioning as unlimited legal tender which is really the subject of my immediate observations.

407. Do you get rid of that defect by the mere fact of limiting the rupee as legal tender if you do not also oust the rupee from circulation?—As I was saying yesterday, you do not need to oust the rupee to any extent from circulation proper. Possibly for the purposes of an actual medium of ordinary circulation India will require not much less rupees than she is in fact using for ordinary circulation at the present time, but if some other form of legal tender,

either an inconvertible note or a fully valued gold coin, has replaced the rupees in hoards, then all the difficulties which we are faced with at present when there is an inflow of rupees from hoards would disappear.

408. I understand you are not assuming, in detailing the advantages of the proposed gold standard, any substantial substitution as regards actual circulation as distinguished from hoards, of rupees by gold?—I think the figure that has been used is something like 10 crores; gold would take the place of 10 crores of circulation.

409. Is it in view of past experience of attempts to substitute gold for rupees in circulation that you are led to believe that the actual circulation of rupees will not be substantially reduced?—To some extent on the supposition that a population of the size of India's will continue to require some coin or medium of circulation of the value of a rupee in very large quantities and I do not think that the work that is done by that coin can be done to any great extent by a gold coin of a value such as Rs. 20.

410. Then you refer to another possibility. We are contemplating a position in which the public can obtain gold freely against rupees: may such an opportunity not lead to the substitution of gold in circulation for notes?—To some extent yes, it is a possibility. I do not think from such indications as one is able to obtain from past history and from the requirements of the people that there would be any great tendency to effect such substitution, the note being a very much simpler form of currency, an easier form of currency to carry about and still more to send about the country. The facilities for remittance, for example, are very much greater in case of notes than in the case of gold coin.

411. The appetite of the Indian public for gold is one of the underlying facts of the currency situation, is it not?—Appetite not for the purpose of currency but for the purpose of hoarding or quasi-hoarding.

412. You agree, of course, that it would be a most undesirable consequence if such an alteration were to lead to a diminution of the use of notes unless it was very temporary?—But there is the other side of the picture and that is that in all probability there would be a very considerable gain in popularity for the note if it had printed on it the statement that it was payable in gold.

413. (*Sir Henry Strakosch.*) If we agree as regards the disadvantage of the sterling exchange standard or the gold exchange standard in fact, the previous system in this country is that the material upon which the rupee note in the form of a rupee coin is printed, is too expensive, it should be possible to assess what that expense would be. Now you have assumed in your plan under the sterling exchange standard that a reserve of 50 crores of rupee coin to secure the notes would be sufficient. Therefore the interest on these 50 crores of rupees would constitute the expense involved in maintaining the pre-war system. Do you agree to that?—I have not quite followed.

414. The expense involved, is it not the loss of interest on the reserve which you have to keep to secure the exchange value of that rupee note, i.e., the rupee coin? If it were full value, you would say no reserve is required to maintain it. Therefore the reserve that is required to maintain the exchange value of the rupee is the measure of expense involved under the old system?—I think I can agree to that as a logical statement but I am not sure I should not have to think very carefully to be sure that would contain the whole truth.

415. My point is this. If it is necessary to maintain the exchange value of the silver rupee in circulation, to hold 50 crores in sterling securities, then the expense involved under the old system, is the loss of interest that you are suffering by holding that reserve?—But we are not suffering a loss of interest.

416. You would lose interest on the 50 crores?—I think that logically that is so, except that you may earn interest on securities held in your reserve.

417. If this is correct, could you not assess the expense of a system of having notes printed on silver as the rate of interest which would be lost if you held the reserve in the shape of gold?—That is assuming that you would otherwise have an unlimited circulation consisting solely of notes printed on paper—or silver.

418. That the expense of printing part of your notes is assessed by the loss of interest on the 50 crores as conditions are to-day, because there is no difference between the note printed on paper and the note printed on silver, as both require an equally large reserve. If that is so, then the gold reserve which you are keeping is the measure of loss that you are incurring in having a note printed on silver? For these 50 crores then, the interest thereon at 4 per cent. is 2 crores. One might therefore say that the loss incurred by the system is Rs. 2 crores a year on Rs. 50 crores providing you are holding those reserves in the form of gold?—The loss simply amounts perhaps to the difference between the interest payable on an outstanding sterling loan of that amount and the interest receivable on short term sterling investments of the same amount.

419. I always assume that the reserve will approximately be the differenee between the bullion value of the rupee and its face value?—Yes.

420. (*Sir Reginald Mant.*) You said that you have to keep as large a reserve against the rupee note as against the paper note?—I assumed in answering the last question that that was so. Very nearly, I said.

421. But you only propose to keep one rupee in reserve against four?—It is only that part of the rupees in circulation which is liable to come out which constitutes a potential demand, it is not the whole of the rupees in circulation which require a reserve.

422. For further expansions of rupees you would only keep 25 per cent., so you don't really have to keep as large a reserve?—But you have to keep as large a reserve against that part of the rupees which constitute a threat to the stability of the exchange as you have to keep against paper.

423. (*Prof. Coyajee.*) But in the case of the notes you have also to keep another reserve, so there is no difference in cheapness or dearness because in the case of notes you have to keep a certain number of rupees? —That is because your rupee is unlimited legal tender. If your note is not convertible into rupees, you do not need to keep rupees in reserve.

424. But as it is, the notes are not so much cheaper because you have to keep a certain number of rupees against it as things are?—Yes. Sir Henry was isolating the exchange side of the reserve.

425. When the rupee is finally made a subsidiary coin with unlimited legal tender, shall we have anything like rupee securities?—The rupee security will be a gold security.

426. Because Mr. Denning in his memorandum on the gold standard says that the remainder would be rupee securities.—They would be rupee securities just as sterling securities are sterling, both may be expressed payable in gold.

427. But why call them rupee securities at all?—Rupee securities in the same sense as sterling securities are sterling securities. Rupees have become the general denomination for the Indian currency unit, but that does not necessarily imply a silver rupee.

428. (*Sir Purshotamdas Thakurdas.*) Since the time that the rupee became a token coin in India, it is only natural that the people's confidence in tho rupee should lessen. They know it is an overvalued coin and to that extent their appetite for getting its real worth is natural?—I think there has been a tendency all the time to hold another kind of metal rather than silver rupees. But at the same time there are many people who still regard the rupee as the same sort of rupee as it was in 1880, though it is difficult to make a very convincing statement on that point.

429. But irrespective of any statement, I was only asking whether it is not natural that people when they see token coin circulating amongst them would prefer for the purpose of hoarding something which is worth what they pay for it?—It is a natural tendency.

430. Then in that case, would not the first step be to convince the people that if they used their gold they will get it back whenever they want it and that need not be done by a more expensive token currency?—You are asking me, what are the reasons in favour of making the rupee convertible into gold. I agree that the strongest reason in its favour is perhaps that it would in time so convince the general public of the immediate convertibility into gold of any form or investment that they hold that there would be greatly increased confidence in the currency of the country and I hope a greatly increased tendency to use the opportunities for banking and investment intelligently.

431. I was trying to get at what is called the appetite of the people—of the masses—for hoarding gold as they get some surplus. I want to know whether in order to remedy that so-called tendency of the Indian people, an introduction of a gold currency would not directly show to the people that they can really get gold whenever they want and therefore they need not hoard it?—Yes.

432. The longer the Government keep the people away from getting it, the more the people will try to hoard it?—That is not a necessary logical consequence though I believe it to be true. I think it might be theoretically possible so to educate the people of India as to make them realise that their rupee note under the sterling exchange standard was so absolutely convertible for practical purposes into gold that their fears and attempts to hoard anything might disappear.

433. It is generally said that hoarding is a practice which is regarded as inevitable in India in its social and religious condition. Do you think it is susceptible of any change?—I should say that there has been and is an enormous change going on. Very much greater changes are needed and they are likely to be very long period changes in these matters but I look forward confidently to an increasing habit in India of using capital, if I may use the word, intelligently. But it is a very slow process and any means that can be found for accelerating it should also help to solve the great problem of teaching India to use her capital intelligently.

434. During the war period, gold was difficult to obtain, and it is true that since the gold prices went back the people have begun to make up for what they could not get during the war period?—The comparative cheapness of gold coinciding with a period of considerable prosperity owing to good monsoons has led to a very large demand for gold, particularly noticeable in the statistics of the last year. That, I think, from other evidence that we have, was the result of the comparative cheapness of gold and the comparative dearness of some other commodities, such as cotton goods, which the Indian people generally buy with their surplus. These resulted in a very considerable exchange of rupees in hoards for gold and in considerable new hoarding.

435. Do you think that this hoarding of gold to this extent just now mentioned would have taken place on the same scale at any rate if gold currency was in circulation? Or would it have made any difference?—I do not know whether it would have made any difference in that particular year. But I do believe that after a short time when the Indian people had discovered that they could get gold for currency without limit there would be a considerable tendency, instead of hoarding, to invest. It is more difficult to answer with reference to the particular year 1924-25, but as a general proposition I agree that after a short period the fact that the Indian people would have realised that they are able to obtain gold as currency and the rupee would be exchangeable into gold would lead to a very considerable tendency for them to invest rather than to hoard.

436. I am sure you must have heard during the last few years that people have begun to take gold bullion in small quantities of two or three tolas?—Yes, regarding the general operation of the gold market upon the small hoarder an ocular demonstration can be given to any visitor to the Delhi bazaar at any time, and might be instructive.

437. I want to know whether you think that this tendency to buy small quantities of gold would continue if gold coin was available in exchange for rupees—that is, with gold circulating as currency?—I think that instead of hoarding gold in the form of small bars, people would at first hoard gold coins.

438. When they have been satisfied that they could get gold whenever they want it?—The small hoard is not very easily distinguishable from the use of money in circulation; but one would hope that the savings bank and the cash certificate would make a much more real appeal to the very small investor. If the savings bank deposit and the cash certificate were expressed in terms of paying gold, it would be realised that gold could be had readily when required.

439. Gold sovereigns were available before the war fairly easily. There was no tendency to take small amounts of gold till 1914?—I believe that is a new tendency.

440. It has developed very lately perhaps by the cheaper price of gold?—I understand that is so.

441. Do you, therefore, think that it will be a fair conclusion to make that if gold was fairly easily available at the various Government treasuries, people may have hoarded less gold?—I think I have answered that really already in my broad statement that I am personally convinced that the easy availability of gold and the convertibility of the rupee into gold will after a certain interval have a very strong effect in reducing the tendency to hoard.

442. In that case, with a definite announcement of policy and an adoption of that policy, is it not likely that the people of India would reconcile themselves to the position that 'we can get gold whenever we want,' and the tendency to hoard may be very considerably reduced?—I believe so.

443. Regarding the loss of interest on currency, is not that loss borne by every country which has any currency at all?—Yes; gold in circulation, in theory, is a wasteful habit, which I hope has been finally got over in England, and has never been very prominent in America. Undoubtedly there is a loss, both in interest and in wear and tear, when anybody uses gold in circulation. At present there is no circulation of gold in England. When there was, it was a wasteful habit.

444. In the case of India, whether this habit is right or wrong, it will take a little longer time to have more confidence in the currency policy of the Government?—Is it confidence in the currency so much?

445. Currency policy of the Government, including the gold coin being kept in circulation in normal conditions?—I think one has to look a long time ahead before one can foresee the time when the whole population in India will be so educated as to prefer non-metallic to metallic currency.

446. I was thinking of the gradual improvement?—The improvement cannot be expected to be very very rapid.

447. It may take a longer time than it has taken in England?—England has been taught the lesson very quickly in a sense by the war.

448. (*Chairman.*) You tell us that the possibility of obtaining gold freely would, after a short interval, tend to reduce the hoarding habit, followed by an increase of the investing habit?—Yes.

449. I understand by your reference to a short interval, that there cannot be expected to be an immediate change?—One is in the region of pure prophecy, one can only express one's conviction and one's hope, which is based on such information and such intelligent examination as is possible. But I

have been led to the conviction by conversations with people like Marwaris and others, as well as by an examination of other evidence, that the fact that the rupee would be absolutely exchangeable for a gold coin, and the fact that our cash certificate would be expressed as payable in gold and the Government promissory note or the debenture of an industrial company would all be expressed as payable in gold, would give a tremendous inducement to the investing habit in this country. It is difficult to put it into figures. One assumes that there would be a large temporary addition to the demand for gold by India. If this policy were introduced that large additional demand would come rather quickly and suddenly on the world market. But the world might reasonably look forward, I think, to the gross demand for gold for India for the next 30 years not being increased; there will be a temporary increase in demand in the early years of that period, and thereafter a reduced demand.

450. We may, I suppose, look for a reduction in the demand of India for gold when such a change as that you are contemplating occurs in the course of the financial education of the public?—To a small extent one would hope that the change will come in any case; but one would expect that it will take very much longer without this special stimulus.

451. The desideratum being confidence on the part of the public in the stability of the value of the currency whch they are using?—I attach great importance to confidence on the part of the public in their currency, and also to the currency system being one which is comparatively easily intelligible to them. That is, they are coming to realise that this rupee is less than a full value coin, and that is about as far as you can expect to get our Indian currency system, as it now is, understood by the people generally, and since that is understood there is a natural tendency to prefer something else for the rupee.

452. We have been passing through a period of abnormal fluctuations in the value of the currency. What would be the effect upon public confidence in its value of a visible return to and maintenance of the stability of the currency through exchange on the exchange standards?—On the one hand the instability of the currency during the last 10 or 12 years has undoubtedly tended to cause distrust of the currency. On the other, that has been accompanied by a period of very rapid development in many directions of the banking and monetary facilities in India, including a considerable industrial development, and statistically a very large increase in the amount of the investments of the Indian people. For example, Government of India rupee loans outstanding on 31st March, 1914, were 145·9 crores, and 370·8 crores on the 31st March, 1925. They were nearly trebled, and this is in addition to the cash certificates. So there has been development going on. In addition the cash certificate system, which did not exist in 1914, has produced a total of 17 crores; so there has been a development going on.

453. We have at present realised an increase in banking facilities; statistics show an increase of the investing habit, and, as you have first told us, you have the growth of the industrial system giving increased investment facilities for the savings of the public. We might contemplate an additional factor of stability by the establishment of a firm exchange standard system. Might not all these influences be expected to have a powerful effect, leading to the good results which you say are the results to be desired?—There is such an immense possibility of advance. If you consider the size and the population of India and its potential resources, while one might confidently say that some advance would take place anyhow, it will to all appearances be a slow one in comparison with the immense possibilities that exist, and so long as that is the case there do seem to me to be very strong arguments for a bold policy of assisting and stimulating that development by giving to the Indian people an absolute convertibility of their currency into gold. I would expect that to hasten the process by possibly a couple of generations. At the same time one is naturally here in the region of rather mystic prophecy.

454. This is an appropriate place to ask a question which Prof. Coyajee asks me to put, *viz.*, would 10 years suffice for the introduction of the gold standard and the financial education of a continent? —10 years would hardly even suffice for the financial education of any one individual or any country or any people. 10 years was put down in that memorandum as the suggested period over which the iutroduction of a new system might be spread, not with the idea that the education of a continent would be completely achieved but as a minimum period in which it would be possible to carry through efficiently the changes in machinery and methods and meet the practical difficulties that the change involves. One would want another 10 or 15 years before one would see very appreciable results from the increased confidence.

455. (*Prof. Coyajee.*) What was implied in this question was that in order that gold circulation should continue in India some of the earlier demand for gold should be saturated as it were, and the question is whether 10 years would suffice for that process of saturation?—The process of saturation is not I think within the power of any individual to encompass. The difficulty of the situation is that the suggestion of a gold currency, of making the rupee absolutely convertible into a gold currency, involves some kind of public proclamation that the silver rupee is in process of being dethroned and may involve an enormous demand for gold by the holders of rupees and silver generally. I think that the danger is not so much that 10 years might not suffice for the saturation but that the immediate rush to obtain gold in place of silver might be rather difficult to manage. I think that 10 years would probably suffice. The danger is that it might happen even more quickly. The new hoards will be gold and not silver, but one would hope that the absolute value of the new hoards would be less and that rather more would be banked and invested.

456. (*Chairman.*) A period of 10 years is required, according to the scheme outlined, for the complete introduction of the scheme, as I understand it. During that period you contemplate with certainty a continuous and enlarged demand for gold. After that you hope that the educative effect of the new system will begin to tell and that there will be a gradual realization of the benefits in the return of gold?—You may say for certain that there would be a less absolute demand for gold after the change than there is now. The whole question is how much less and how quickly it would grow less.

457. In broad outline, the situation is that there is the certainty that there will be an immediate demand for gold and that you hope thereafter the demand will diminish and the gold will be returned?—I would say that there are two certainties. One is that there would be an immediate and large demand for gold, and the second is that there would be an absolute diminution in the demand for gold thereafter but that it would take a long time before that absolute diminution rose to very large figures.

458. (*Sir Henry Strakosch.*) You said, Sir Basil, that the system of having gold in circulation is an extremely wasteful one and no doubt you would also agree that the ideal function of gold in any currency system is that its use is confined to international payments. Do you consider that gold in circulation internally is of any great value for external payments in times of stress?—I must again draw a distinction between gold in circulation and gold in hoards. I contemplate that there will be very little gold in actual circulation in India. Gold in circulation is only available for meeting the demand for foreign exchange, external exchange, in so far as the currency contracts during that period and the contraction is in the gold portion of the currency. It is available in a way that silver is not available in that it is gold that comes back and is immediately

exportable, but undoubtedly gold in circulation is not much use in a time of crisis unless you can do as was done for example in the United Kingdom and in Germany during the war, that is, rely upon the patriotic intelligence of the people and secure a sudden change in their habits.

459. In India the gold actually in circulation will be of comparatively little value for the purpose of the maintenance of exchange. The object of the question is rather to elucidate whether in these circumstances, Sir Basil thinks that during the earlier period of the introduction of the system, it would be as necessary to hold substantial gold reserves to maintain the exchange value of the rupee as under any other system, such as a sterling exchange or gold exchange standard?—The introduction of the system necessarily involves the liquidation of a good part of the existing reserves and it probably involves recourse to external borrowing. Therefore during the period of transition I think that if a period of stress arises it would involve additional external borrowing.

460. The borrowing being for the purpose of making external payments for the purchase of silver, which function at present is performed by the reserves?—I think the extra gold would be in diminution of India's external balance.

461. But if that crisis in India is accompanied by a crisis abroad, would you not think it would be difficult to borrow at that period; would it not in the circumstances be advisable to hold a reserve in gold and gold securities?—I think some reserve would have to be maintained but in view of the fact that you have to borrow abroad anyhow, you would try to postpone your borrowings though of course not absolutely till the last moment, by letting your available reserves run down to a low point.

462. So that the gold required to introduce the system would be, first of all, the gold which will go into hoards in substitution of the present silver hoards, your silver ornaments, etc., and then in addition to that, the gold needed to maintain the exchange value of the rupee especially during the initial period in so far as your existing gold reserve is insufficient?—Yes.

463. You say that the central aim must be to educate the people of India to instruments of credit? Now we know the predilection of the people of India for precious metals and also their ignorance of the method of saving in the form of securities. You refer to cash certificates which are issued in this country, which I take it are something equivalent to the war savings certificates at home.—They are very nearly identical. About 17 crores are outstanding at the present moment.

464. Would you regard a system under which the public demand for gold and its ignorance of investing habits might not be met by offering to the public cash certificates of fairly short currencies payable in gold? You actually kill two birds with one stone; one, you satisfy the prospective desire for gold, and, two, you incidentally educate the public to buy securities which would yield them interest rather than hoard gold?—I think if that was the sole contribution to the problem, you might kill a third bird, namely the cash certificates because they are payable on demand. There is no interest paid during the first year and an increasing rate of interest from after the first year. It is absolutely encashable any time after issue at par. The rate of interest runs up by degrees to 6 per cent. at the end of the present maximum period of 5 years. The cash certificate that you contemplate would have to be not a cash certificate because that implies a certificate for cash deposited but it would have to be some form of a bond.

465. Why not have it in the form of a very short term bond?—Of course a short term bond is not what the very small man would hold because in the case of the cash certificate he can at any moment get cash for it and the bond is a thing for which there has to be a market.

466. But he would be able to get money from moneylenders upon a certificate which matures in say six months or a year?—God save us from the moneylender dealing in the cash certificate! No doubt however it would be most desirable if we did introduce the gold standard to accompany its introduction with a very well thought out campaign for encouraging investment.

467. Would it be necessary to do that—would it not be equally possible under a gold sterling or gold exchange standard?—We are of course doing what we can already. There are difficulties in India about the sort of propaganda campaign that there was for cash certificates in England, and still more in America. But in any circumstances I hope that the authorities in India will be always doing their best to encourage investment, and the introduction of the gold standard would I think give an opportunity for a specially vigorous and I hope a specially successful campaign.

468. I may say that the essence of my suggestion was that this certificate should be payable in gold so that the certificate holder would have the special privilege of cashing it in gold?—It might be possible I think to take advantage of the implications of that idea by issuing a gold bond possibly of some sort,—a gold bond payable five years hence as a preliminary or accompaniment of the first stage of the introduction of the gold standard; you might by that means reduce your immediate demand for gold, but I think by itself it would not attract many of the people who are now in the habit of hoarding gold.

469. (*Chairman.*) Sir Basil, I want to take you on to the state of affairs which would exist when the full gold standard was established. That is the stage three, if I remember right, of Mr. McWatters's memorandum. I am going to commit the unpardonable sin of repeating a question because I am not quite sure whether I made myself clear when I asked it at an earlier stage of the examination. In stage (III), para. 10, of Mr. Denning's memorandum on the Gold Standard for India, it is said "after a period fixed by statute (say, five years) the liability to give gold coin in exchange for notes or rupees and also for gold bullion on payment of a seigniorage should be imposed" and then on stage (IV) "after a further period fixed by statute (say, five years) the silver rupee should be made legal tender for sums up to a small fixed amount only (say, Rs. 50)." Is the liability referred to in paragraph 3 to continue after the commencement of period 4 or not?—Yes certainly. But it would no longer be in exchange for all rupees; it would be really in exchange for notes. The rupee would be limited legal tender only and the liability would only be to give gold in exchange for notes.

470. They would not then be able to bring an unlimited amount of rupees and require gold?—That would not be a legal tender, except for a limited amount.

471. What would that imply as regards the obligation of the Bank to give gold for rupees?—It would presumably have to give gold for rupees up to Rs. 50 only. The rupee would be in the same position as the shilling in England. It is more a technical distinction than an actual one except that there might arise occasions as they do in England when subsidiary coinage is redundant and when other Banks than the Bank of England find they have got more accumulated than they need and have no means of getting rid of it.

472. You cannot in England demand gold for silver for any amount small or large?—You cannot when the application is for a large amount; you can obtain gold for export on demand on presenting legal tender for the minimum amount required to pay for 400 ounces.

473. I think I am right in saying that there was never an obligation on the part of the Bank of England to give a sovereign for 20 shillings silver?—No, not now. There would have been perhaps before the war; it was up to 40 shillings.

474. That is the extent of the liability which you contemplate continuing, after the inception of the final period here?—Yes.

475. Now, again dealing with the period after the full introduction of the gold standard, there is a seasonal demand, as I understand it, in India for actual silver rupee coins for the financing of certain crops, is there not?—Yes.

476. Do you contemplate that the seasonal demand might be converted into a demand for gold for the financing of these particular crops?—It might be to some small extent.

477. But I imagine the currency requirements are such as regards the amount of the payments and the habits of the cultivators that rupees are likely to continue to be required in substantial amounts seasonally for the financing of certain crops?—Yes.

478. In view, then, of there being an excess demand at certain times of the year for rupees in some form or another, do you think it would still be necessary for the Imperial Bank to keep a stock of rupees?—In the same sort of way as the Bank of England has to keep subsidiary coin in England.

479. In the same sort of way as regards the nature of the demand; but would it not be very much larger as regards the magnitude of the stock which it will be necessary to keep?—The difference perhaps between the maximum demand and the minimum demand will be greater than in England.

480. Can you give roughly the order of the figure? It appears to me from such figures as I have been able to see that you can take the maximum additional seasonal demand for silver rupees as not exceeding six crores?—I have asked Mr. MacWatters to prepare figures of the fluctuations and the difference between the maximum and the minimum demand.

481. Those figures would show the stock of coined rupees which it would still be essential for the Imperial Bank to keep in excess?—Yes, that would give you some idea of it.

482. Will you clear my mind on a further point? It is really supplementary to some questions which have been put to you this morning by Sir Henry Strakosch. Supposing that the rupee has ceased to be legal tender except for small amounts, and supposing that there is still in circulation some 150 crores of rupees, would it not be the case that a part of that large value in rupees would still be available for contraction, if I may put it so, as payment in respect of imports, and therefore would it not still require, even though the rupee ceased to be legal tender, some provision for the protection of its exchange value in the form of sterling reserves or gold reserves?—So far as I am aware it is not the practice and never has been the practice in England to keep any kind of cover against the subsidiary silver coins in circulation. I am not sure that I see any reason why it should be necessary to do so in India.

483. Are we not here dealing with a value which has quite a different order of magnitude from the value of the silver coinage in circulation in Canada, in England or in any other European country?—Proportionately per head of the population, no. I have not got exact figures for the silver coin in circulation in England, but I believe just after the war it was something between 50 and 60 million sterling, which was more than £1 per head of the population. The figures suggested here is from 150 to 200 crores, which is about 5 rupees per head of the population.

484. Your reply to my question would be, if I follow you, that that rupee currency in circulation would not be capable of contraction?—Not to an important extent.

485. You are of opinion that it will be possible to disregard that store of value altogether as requiring any protection from the point of view of exchange?—Yes.

486. (*Sir Henry Strakosch.*) Continuing that particular aspect of the question—when the full fledged gold standard is in operation, would it be necessary nevertheless to hold reserves to protect the exchange in the same way as the Bank of England held gold reserves when we had a full-fledged gold standard in England and when gold was in circulation there?—Certainly—against the notes in particular.

487. And that reserve would have to be a substantial reserve because the position of India is, of course, a totally different one to that of the United Kingdom as a big creditor nation which kept its reserves deposited in other gold standard countries and could draw upon them as necessity arose?—Yes.

488. In India the position would be different, because India is mainly a borrowing country?—Yes.

489. And relies on a regular influx of capital from abroad?—No, I am not sure if India really relies on a regular influx of capital of any large amount from abroad. There has been a very great development in the last 10 or 15 years. We have not borrowed for purposes of Government expenditure of any kind now for 2½ years, and we have during that period financed very large sterling expenditure on capital account, apart from the revenue account, in addition to making small repayments in the nature of sinking fund repayments, of our sterling liabilities. I may mention, as an example, that we took over the G. I. P. Railway, and last year I think we found 2 to 3 million sterling to pay off the English stockholders. We did not borrow outside India for that; so that, though there has been a considerable influx of external capital into India in the past, and no doubt is still coming, I do not think it is true that India relies, in order to achieve equilibrium in her balance of payments at the present time on imported capital from abroad. She normally has a very large surplus of exports over imports, and if she used that surplus for investment at home, *i.e.*, in India itself, instead of for purchase of gold, she would certainly not have to rely at all on external capital. Indeed she might within quite a short period be a lender abroad rather than a borrower—which is in the future, not at the present time. At the same time I would not agree that she relies to any large extent on imported capital at the present time.

490. At what figure would you assess the reserves necessary to maintain the exchange value of the rupee supposing she went over to the gold standard?—I have endeavoured to give the figures in my memorandum.

491. You merely say that it may become necessary to borrow abroad without saying what figure?—No; I think in para. 25 of the memorandum entitled the Indian Currency System, I suggest a constitution for the reserve on the new basis. It is really the second of those two tables—based on the assumption of a circulation of 189·5 crores.

492. So that it would be correct to say that in order to introduce the gold standard it would be necessary to provide:—(*a*) an amount sufficient to saturate the country with gold for hoarding and currency purposes, and (*b*) a reserve of 89·5 crores to assure the exchange value of the rupee?—Yes. But I would like to be sure that we mean the same thing by saying "saturate the country". I would not suggest that it will finally saturate it and that it will be incapable of taking more gold in certain directions thereafter. But I think by saturation you mean, and I mean, converting into gold these hoards which are at present in silver, and are likely to seek conversion into gold in the event of such transition taking place.

493. And secondly?—Sufficient gold assets in reserve to establish a safe reserve under your new currency system.

494. And thirdly, to give the country sufficient gold coin for purely currency purposes?—Yes. That, I think, is included in the figure that we originally put forward. That is an outflow of 200 crores of silver rupees and a maximum extra demand for gold of £103,000,000.

495. So that if you were to add the 89·5 crores to the 200 crores just mentioned, the total amount needed to set the gold currency on foot would be 289·5 crores of gold, from which has to be deducted what is available at the present moment in the form of gold or gold securities?—I do not think you can add those two figures. 90 crores of silver is at present in our reserves.

496. I am speaking of the need for gold, irrespective of what is now held?—The extra gold required is, I think, set out fairly clearly in Mr. Denning's memorandum.

497. (*Chairman.*) It comes to 110 crores against hoards and 27·2 crores, being the difference between 56·9 crores and 29·7 crores, giving a total of 137·2 crores?—Yes. That is £103,000,000.

498. (*Sir Henry Strakosch.*) Is it suggested that 200 crores would be needed, 100 crores plus 90 crores from the silver rupees in the paper currency reserve?—The estimate of the amount required, which of course is necessarily a good deal a matter of guess work is the replacing of 100 crores of silver rupees now in hoards by gold, an additional 10 crores of rupees now in circulation to be replaced by gold; that gives you the figure of 110 crores. In addition to that, you need such gold as may be required to bring the present holding of the reserve in gold, which is at present 29 crores, up to whatever figure you decide is to be the minimum in the new reserve which, I have suggested, should be somewhere in the neighbourhood of 40 or 45 crores.

499. May I, therefore, put it this way? Estimated requirements at 110 crores plus 89·5 crores, less the amount held in the reserve?—No. 89·5 is not the amount of gold that I suggest is necessary for the new reserve—it is the amount of gold and sterling or other gold securities. I estimate the requirements as 110 crores plus—to take the second of my two tables at page 9—45 less 29·7 crores. Mr. Denning gets rather a higher figure simply because he asks for a slightly larger amount of gold in the reserve than I suggest. But, if you take his figure you get 137·2 crores, which is 103 millions sterling.

500. Taking your figure of 110 crores, that compares with an estimate of hoards at present in the shape of silver rupees or metal of 200 crores?—One of those hoards being in the hands of the Government of India.

501. You mean you include in the 200 crores the 90 crores of the Government of India?—Yes.

502. (*Chairman.*) So that your estimate of the total hoards outstanding would be very much below 200 crores, would it not?—On the figures that I gave yesterday, I think they were a maximum of 400 crores for the total amount of silver rupees absolutely out, a more probable figure of something between 300 and 350, and a minimum figure of 150 as the amount required for circulation in any case, the more probable figure approaching 200. If you waive from that 350 crores, the 90 crores in the hands of the Government at present in silver, you get 260 as a reasonable sort of maximum for the amount you have got to deal with; and, taking from it a further 150 or 160 crores as the amount in circulation, you get a rough figure of 100 for the amount of silver hoards there is any real probablity of having to deal with—and that probably a high figure. Mr. McWatters will tell you; the figures are extremely difficult to obtain. But 400 is, I think, an absolutely safe outside figure for the maximum in circulation, including hoards at the present moment.

503. Then you have whatever element of uncertainty there is between the 400 crores and the total maximum quantity of 600 crores?—Yes.

504. The difference contains the uncertain element of what has been melted down by the public?—Yes; but I have not got the exact figures. I think that the amount that has been in to be melted down by the Government brings the maximum total of rupees in existence at the present moment down to somewhere near 450. Then it depends how much has been melted privately and how much below that figure you could go.

505. (*Sir Henry Strakosch.*) So that you estimate the total amount of gold required would be, expressed in sterling, something like 80 million sterling?—103 million, according to Mr. Denning's figure. Mine would be just under 100 millions.

506. May I ask you what effect you think a demand of 100 million sterling upon the gold reserve of the gold standard countries would have, because that is the only source the gold can come from?

507. (*Chairman.*) Can you keep the question for consideration at a short stage later—in case there is anything more to be explored on the question of the reserves—because that raises rather a specific topic? I should just like to put it to you in this way, Sir Basil, if I may, that under the present system, under the present constitution of the reserve, and assuming throughout a present circulation of 189·50 for the note issue, the total gold and sterling held is 109·7 crores, is it not?—Yes.

508. Under Mr. Denning's final constitution of the reserves in the second stage the total gold and sterling held would be 99·5 crores?—Yes.

509. Under your constitution of the reserves the total gold and sterling held will also be 99·5 crores?—Yes, but the amount of gold rather less and the amount of sterling securities rather more.

510. To summarise our discussion, why is it, in your opinion, possible in starting the new system, to make that reduction in gold and sterling held?—At that stage the assumption is that the Government has got rid of all liability for the overvalued rupee, that you have drawn the 100 crores of rupees out of hoards and replaced them by 100 crores of fully valued gold. Any tendency for currency to come out of hoards into circulation or to seek export is therefore no danger to the exchange value, except in so far as in another connection it may tend to gold inflation, which is not a question in point. But anything coming out of hoards comes out in the form of fully valued gold and requires no reserves to protect it. It is valuable in international currency in any centre that is wanted, and no reserve is wanted against it, whereas at present you need a reserve against the silver in those hoards.

511. You look, then, upon the gold in hoards as it were as an additional reserve?—It is so long as it is there; and if it does not come out in any form, it is not a drain.

512. (*Sir Henry Strakosch.*) If contraction has to take place and if gold won't come out, then notes will flow back in greater volume than otherwise?—Yes.

513. So that contraction would be effected through the notes which would have to be converted into gold and exported?—Yes, and you are keeping a reserve against your needs under my proposal; only it amounts to 20 crores less than one would regard as necessary to keep against the notes *plus* the rupees under existing circumstances.

514. If it should happen that the issue of gold coin were to reduce the note circulation of the country, would that not produce an impairment of the elasticity of the system? Would it, then, not be necessary to rely upon gold imports at the busy season in order to provide the country with the gold that is needed as additional circulating media?—I contemplate, that in the existing circumstances, India being what it is, whenever there is a good monsoon there will be imported gold based on additional circulation.

515. But a permanent contraction of notes in itself would make the system less elastic?—I think it would.

516. (*Chairman.*) Mr. Denning in his memorandum proposes the introduction of the system by various stages. He estimates that the total maximum demand for gold to replace silver in hoards during the first stage would be fifty crores?—Yes.

517. I want to put this to you. Might not the commencement of the policy result in an acceleration of the demand for gold beyond what is here allowed for?—Yes.

518. And,—just to complete the picture—on the other hand a return of silver from the hoards which would upset all these calculations as to the gradual incidence of the cost?—I do not think they would seriously upset the estimates of the cost to Government; so far as the Government of India is concerned the suggestion is that an addition of 20 crores of gold to the existing holding of 29·7 crores, making roughly 50 crores, would be enough for the Government of India to start with in order to meet the obligation which it had undertaken, namely, to sell to any person who makes a demand at the Bombay Mint, gold bullion in the form of bars. If the demand were larger, as it might very well be, it would, I think, necessarily be at a time when there has been a good monsoon; and it would necessarily follow that exchange would rise to the gold import point and gold would be brought in which might either go to the Government in exchange for currency or might be sold to the bullion dealers direct. In the latter event it would not affect the Government directly, and in the former event the Government would be paying for it in notes.

519. You are protecting the Government of India from an immediate demand on their reserves of gold. But if you regard the matter from the point of view of the demand made by India as a whole upon the world's supplies of gold, have you any means of preventing the whole of the demand in the case of a contingency such as I have referred to being met within a short period?—No. It has been suggested, I think, by Mr. Denning just as a rough start that the demand for gold would be £15 millions at the initial stage, £35 millions within a year and the remainder over the whole period of ten years.

520. What I am suggesting against that is that the whole of that demand might be piled upon you almost on the announcement of that policy?—The whole demand might be piled on India. It would not, under our proposals, involve a breakdown of the Government of India's arrangements for meeting it. It might undoubtedly involve a strain on the exchange position and the necessity for additional sterling assets or additional external credits; but I think the point of the question is that, whatever the position of the Government of India, the demand on the gold market of the world might come very quickly.

521. That is so?—I think the only suggestions one has for preventing that would be something of the sort that we discussed before, *e.g.*, the issue of gold bonds: I entirely agree that we cannot protect the world under such circumstances against the demand coming very quickly.

522. And in the same way the burden upon the world's silver market also?—Not directly because we contemplate that in view of the enormous quantities of silver to be liquidated, nearly 700 million fine ounces at the maximum, it would be out of the question to attempt to do that all at once; and the liquidation would have to be spread over a long period: it will be largely in the hands of the Government of India.

523. How could the Government of India control liquidation by private sellers of silver other than rupees?—I doubt if they would exist in very large quantities; the demand for silver other than in hoards, is largely for bangles and anklets and things of that sort. I have never heard of anybody having a large hoard of silver bullion.

524. Is it the habit of the people of India to hold part of their savings in the form of personal ornaments of silver?—Yes. That is where a large proportion of the precious metals that come into India goes to.

525. I am contemplating that, taking alarm at the value of silver as a result of the announcement of this policy, there might be an immediate large throwing out of this stored value on to the silver market?—I think the tendency would probably be the other way. If the effect of the Government of India's decision was to reduce prices of silver in India and all over the world very materially, the demand for silver would probably increase owing to its cheapness.

526. That must depend on the somewhat psychological question whether a silver band is looked upon as an ornament or as a hoard of value?—I have no doubt that it is both. But the number of silver bangles that can be bought at any one time by the average individual is so small that they would not usually have enough to convert into a gold bangle even if they wished. That I think is a question on which the Commission might get much better evidence from other people than myself. I think the tendency of a fall in silver prices would, so far as I can judge the psychology of the situation, be rather to increase than to decrease the internal demand for silver in India. Everything would of course depend on the nature of the crops of a particular season.

527. With the somewhat surprising result, arguing merely *a priori*, of making an announcement, so obviously largely affecting the value of the substance, to increase the demand for it, when the substance is regarded as a store of value?—I think it is regarded as one, two or three silver bangles or so many tolas of silver rather than as worth a particular number of annas, once it has reached that stage.

528. (*Sir Henry Strakosch.*) Would not the effect be that the first shock of the announcement would lead to sales and that the purchasers would only come when people believed that silver had reached bottom and was really cheap?—There is not the least doubt that it would have a very serious effect on the silver market.

529. Which effect would be brought about by people desiring to exchange their savings from silver into gold?—As I say I do not believe myself that there would be any considerable selling of silver other than rupees in India.

530. (*Chairman.*) Continuing to deal with the situation that would arise on the establishment of a Gold Standard, you refer to the possibility of making arrangements with the Central Banks in order to avoid a disturbance of the distribution of the world's gold supply and the immediate demand for the actual metal. What is the nature of the arrangements which you have in mind?—Well it is obvious that a decision of this importance in relation to gold in the world could not be taken and acted upon without consultation with the Bank of England and the Federal Reserve Board of the United States. It is most important that it should be taken in consultation in order that such steps as are possible may be taken to prevent either a very large appreciation of gold or disturbance in the gold standard countries. My feeling about the matter is that just as in theory, an Exchange Standard for India with no gold in circulation would be cheaper for the Indian people, but that psychologically it would not in the end be of such benefit to India as a gold currency system because of the absence of expert currency knowledge among the majority of the population, so the sudden appearance of an excess demand of 100 million on the gold Reserves of the world would, owing to the attitude of the mind of the average man in the City of London or in the United States, be a very severe shock and could not be met unless something had been done to educate that opinion, but that if that opinion were reasonably educated there would be very little difficulty so far as the experts were concerned, in devising arrangements which would enable the gold reserves of the world to spare £100 million. I have not got the exact figure of the amount of gold and gold certificates in the United States, but I believe, it is a fairly large figure, and I think it is commonly agreed that at the present moment there is a very large excess of gold, apart from gold certificates, possibly as much as 500 million dollars in the Federal Reserve system of the United States which would be enough in itself to meet this demand, if the Federal Reserve Board were willing temporarily to reduce the proportion or were willing to get the

gold certificates out of circulation. Similarly I believe that the Bank of England authorities would agree that if popular opinion were more educated, a reserve of £150 million or £160 million is unnecessarily large. And what I contemplated was that there should be negotiations between the two and that after arrangements had been made for minimising the shock there should be arrangements made for temporary credits for the Government of India either direct from the United States or through the Bank of England so as to ensure the withdrawal of £100 million from the gold reserves of the United States and England in a way which would not upset gold prices.

531. I feel a little difficulty in apprehending what the arrangements to minimise the shock would be, and, in the second place, since what you require to put the standard into force is gold, of what benefit any arrangements for temporary credits is going to be unless except in relation to supplying you with the sterling necessary for the Government payments in London?—Theoretically, the Government of India could set to work to meet the first stage by using it up. It has got available 109 crores of gold and gold securities. It could theoretically proceed to convert the greater portion of those securities into gold during the first stage. Naturally its action in doing so would have a very severe effect on the gold reserves of the United Kingdom and it could hardly take that action until it had come to some agreement with the authorities responsible for those gold reserves.

532. The agreement would be in the nature of an announcement to those authorities as to what you are going to do, so that they might take action to meet the situation?—It would, as I contemplate it, be an agreement to assist the situation by allowing India to borrow temporarily in London and New York.

533. It would be apparent to those from whom the credits were obtained, would it not, that they were obtained for the sake of allowing India to draw gold?—Yes. After all, it was exactly what was done by the German Government when it issued its two large loans in 1924. It obtained thereby a call on the gold reserves of England and America and arrangements were made for assisting the supply of that gold to Germany without disturbing gold prices in the United States.

534. Considering the matter entirely from the point of view of India, and considering what the attitude of those with whom India would have to bargain would be in the event of such negotiations being undertaken, what will be the inducement to the authorities of the world's gold centres to induce them to facilitate the flow of gold to India under those conditions?—India's worst argument would be a threat that she would convert the 80 million crores of sterling securities into gold. That would be one inducement, I think, on the part of those concerned to collaborate in order to prevent any action of that sort from upsetting them. But the other inducement and the main inducement would be I hope, that they would be convinced that in the interests of India and of the world in general, the establishment of the gold standard was over a long period going to secure such improvement in the general economic condition of India and its position as a purchaser and partner in the world's trade and commerce as to make them willing, taking a long view, to assist the process of securing a gold standard for India. I recognise that it is a startling proposition and that there are very formidable difficulties in the way. But I do express my own personal opinion that with goodwill on the part of the various authorities concerned, the problem is one which really might yield to treatment.

535. You express the view in the final paragraph of your memorandum, paragraph 30, "It remains to consider the second question. Can the transition be effected without such a disturbance in the gold and silver market of the world as will threaten or destroy the utility of gold as a standard of value? If the effect of a decision to attempt the change to gold in India is going to be to upset the gold standard in the United States of America or in Europe, India has clearly nothing to gain by making the attempt. Even if the change is likely to cause an appreciation of gold by as much as, say, 25 per cent., India must hesitate before risking such an upset in her own internal prices, as would accompany a fall by 25 per cent. of world prices ", and you add that you do not feel confident to pronounce a decision on this point?—No.

536. I am sure the Commission would be most anxious to hear whether you have any provisional view as to what likelihood there is of so serious an upset as that to which you refer here taking place and what influence that will have upon your opinion as to the desirability of the policy?—I feel convinced that there is a serious risk in a matter of this sort unless there is some preliminary agreement for co-operation among those concerned. But I add that, in my opinion, it ought not to be impossible to arrive at some such agreement, and that, taking an objective view of the whole position, the gold reserves of England and the United States—particularly the United States—could spare the gold required without any appreciable effect on gold prices, if the public opinion in those countries was not unduly shocked.

537. So that the general effect of that is that these are considerations upon which further knowledge and assurance is necessary before anything can be decided as regards the balance of considerations for and against?—Yes. From India's point of view, I believe that, in spite of the real objections to the use of gold as currency, it is impossible to get such good results so quickly for the economic position and development of India by any other system than a gold standard system on the lines suggested, but that the transition to such a system is a big problem. India would have to pay a little bit more in her budget during the transitional period and for, say, a generation, but not, as I think, an impossibly large additional charge. The world would, somehow or other, have to be convinced of the possibility of finding the extra gold required for the transition period before it would be safe for India in her own interest, quite apart from the general interest of the world, to embark on such a plan. But I have expressed my own personal conviction that I do not think it ought to be impossible to convince the world that this can be done.

538. The world for this purpose being represented by the authorities in London and New York?—I believe that those authorities can be persuaded in so far as they are personally concerned in a short time. But they are faced with the necessity of dealing with a public opinion which has only hazy ideas on the subject of the gold standard and of the amount of gold required, and that shares the rather common view that a gold reserve is there to be locked up. And it is the difficulties of educating that opinion that would give pause to the authorities—not that they really believe that it is impossible. In the same way, as I said before, that India could probably get as good results without this system, if public opinion in India were capable of realising it, so I believe that India could get this system without damage to the rest of the world if public opinion in other countries could realise that it could be done.

539. (*Sir Henry Strakosch.*) I should like to ask one or two questions. Sir Basil Blackett mentioned that only the other day a good deal of gold migrated from America to Germany without having any appreciable effect, and that in pre-war days it was the custom to go freely backwards and forwards. I should like to have his view whether, when the time came to approach the Bank of England and the Federal Reserve Board, their decision to help in

establishing a gold standard in India would be influenced by the consideration whether the gold flowing into India will, when it has gone there, remain available as part of the world's gold currency reservoir; if they believed that this gold going out to India did not go into the gold standard reservoir of the world, whether in these circumstances, they would not be very much more reluctant to part with the gold because they would know that that gold would never come back for monetary purposes?—The authorities would certainly be very much influenced by the obvious fact that this hundred million is required in the first instance to go into hoards; but I hope they would also be influenced by the consideration though one cannot put it forward as a fact, but the consideration that it is very probable that, taking a long view, the result of this change would be to diminish the drain on the world supplies of gold within, say, 30 years, that it would diminish the drain immediately once the first operation of a hundred million had been carried through, and it would diminish it to an increasing degree year by year, so that over a period of, say, 30 years, the amount of gold that has gone into India would not have been greater under the new system than under the old; only in this case it would have been spread more in the first five years and less in the last 25 years. But I do not think it would be a consideration for the authorities that, taking a long view, this would remove from among the dangers which always face a gold standard in gold standard countries the threat of an absolutely unlimited drain of gold into India.

540. I should like to ask Sir Basil Blackett whether he thinks that the future production of gold is likely to keep pace with the economic development of the world and therefore the increased demand for gold for monetary purposes. In that connection I should like to remind him of our days at Genoa when that very question was being thrashed out?—I have been dealing with other questions in the last few years than the production of gold in the world, and I do not think that I am really in a position to give a view of any value in reply to the question especially when put by an expert like Sir Henry Strakosch, who probably could give the Commission a view of much more value.

541. I wanted to remind Sir Basil Blackett that it was, I think, then agreed that to keep pace with the economic development of the world, the yearly gold production has to amount to about 3 per cent. of the whole stock of gold money in the world and that that amount was worked out at a figure of about 110 million sterling per annum?—But that is assuming a drain to India of the same sort of proportions as had previously been in existence. If this change is carried through, one anticipates after it a reduction in the demand. It is an anticipation of the demand for a hundred million by a period of about, on the average, 20 years, and it surely does offer a possibility of economy of gold, to get India advanced a stage towards having a banking and monetary machinery, that will be more economical in regard to precious metals than her present habits are.

542. Was it not the proposition at Genoa that because the gold supply of the world was insufficient, countries should adopt the gold exchange standard for the purpose of economising the use of gold for monetary purposes?—As far as I remember those discussions, the subject of economising the use of gold in case it was insufficient was one of the big subjects discussed. But then the most important point underlying those discussions was not so much the economising of the use of gold as the attempt to stabilise the gold commodity value; so that in the event of an extra demand for gold, such as I am now suggesting India should make, the co-operation of the central banks of the world would secure that it did not cause a serious appreciation in gold, and, similarly, if there were some large new supply of gold from any quarter, it should be so absorbed as between the various gold using countries of the world as to prevent a rise in gold prices. I do not remember very particular stress being laid on the insufficiency of the world's gold supply except, I think, by Professor Cassel.

543. But are not those two questions almost inseparable? If my memory serves me right, the fundamental idea of the Genoa resolutions was that there was likely to be a scarcity in the supply of gold and that in order to maintain the purchasing power of gold at a stable level, it was necessary to economise it and that as a means of economising it, the introduction universally of the gold exchange standard was advocated?—Certainly; that was one of the purposes in view. I think, speaking for myself, I laid more stress on the importance of stabilising the commodity value of gold than on the economising of it; because I was not convinced in view of the history of the past, that we could say that there would be or would not be a sufficiency of gold. The fear of a scarcity of gold was in view of the very much larger amount of credit structure built on the gold during the war. That threatened the possibility of a serious contraction afterwards. To that extent there was a suggestion that it was important to economise gold; but I would suggest that in the Genoa resolutions, the suggestions for co-operation between the central banks of the world are very much germane to the subject we are discussing and that it was for this sort of purpose the conference in question made their suggestions, and that we are pursuing our ultimate purpose, namely, an international exchange standard, by suggesting for India that she should advance towards that through the stage which, I fear unfortunately, cannot be avoided of using gold currency in the meanwhile.

544. One last question. Your memorandum says that the project is a very formidable one and one that should be weighed very carefully. There are any number of factors which are highly speculative?—Certainly.

545. And being highly speculative, is it not advisable to take the most conservative view of the requirements rather than a less cautious view and, in the circumstances, would not the conclusion be drawn from the proposal that the amount of gold, in view of the fact that the factors are so speculative, would be far greater than you, with your great experience believe to be the case, and that that fact alone would be a factor in determining the purchasing power of gold for a long time?—Admittedly, the elements in the problem are largely speculative. In Mr. Denning's memorandum, I believe that in practically every case the figures represent the maximum in the sense that they are so cautious as to lead up to the final figure for the demand for gold which is the maximum which you can reasonably conceive as likely to result from this change. The very fact that the main part of the demand must come quickly in the first year or two, I think, is the answer to the other part of Sir Henry Strakosch's question, namely, that the uncertainty would, over a long period, lead to an appreciation of gold. I believe the uncertainty would be of comparatively short dimensions.

546. (*Sir Reginald Mant.*) So far we have arrived, I think, at this conclusion: that, in your view, the sterling exchange standard could be introduced at once without any appreciable difficulty?—Yes; it is practically in existence; all that is required for it, or almost all that is required for it, is a determination of the ratio at which the rupee is to be fixed to sterling.

547. But you would prefer to introduce the gold standard by stages? And that involves the selling off of a large amount of silver and buying gold?—Yes.

548. With the risk of upsetting both the silver and gold markets. The question I want to ask you is whether it would not be feasible to introduce or to perfect at once the sterling exchange standard and to let gold come into the country as it is doing and has been doing for some time, without attempting to force the process, without selling off rupees until the saturation point arrives by this natural

process, and to keep the gold standard in view as a goal to be achieved later? There have been large imports of gold lately and there is every indication of the process continuing?—Ever since the closing of the Indian mints to silver, with less or more emphasis, except, I think, in the case of the Chamberlain Commission, each Committee or Commission of inquiry that has sat on this subject has spoken about an eventual advance to a gold standard. It seems to me that the time has come when India may justly ask that a final decision may be taken on that matter. If, therefore, it is decided that the eventual goal is the gold standard, I would suggest that it is in the interests of India that the final transition moment should be reached as soon as circumstances will allow and the Rubicon crossed. I feel that any development of the exchange standard, unless it is accompanied by a definite decision to build up by all possible means a large gold reserve in physical gold—any attempt to develop the existing system—would merely mean that the same vast problem of converting hoards of silver into gold will stand as a wall against further advance at any moment that we can reasonably foresee.

549. But is not absorption of silver going on every year, and would not the problem become less difficult with lapse of time?—It may; but whereas on the one hand there has no doubt been a considerable tendency, visible last year at any rate, to convert silver hoards into gold hoards, I have no doubt that hoarding of silver rupees is also going on and will go on under the exchange standard and the liquefaction of those silver rupees will always be a problem ahead at the moment when the decision to introduce the gold standard has to be taken.

550. Would it not be more economical to let it come about gradually?—It might be. I am not sure it would come about gradually. But assuming that it would be so, it would be more economical in the sense that it might be less costly immediately to the Indian Budget. But I do not think it will be more truly economical in the interests of India as a whole; because I believe that the introduction of the gold standard is a necessary or at least a very desirable stage in the economic development of India as an investing country using western or highly scientific banking and monetary machinery.

551. Do you think that the fact that we move too slowly is a sufficient ground really for embarking now on this very hazardous course—a course to which there is likely to be so much opposition in both gold and silver markets?—I think the best argument for doing it is that it is in India's best interests to do it.

552. At once? That is what I want to know?—It must be as soon as possible. If the view is not held that it is in India's interests to reach this stage as soon as possible, then there is no argument for reaching it at all.

553. It might surely be said that there was an argument for reaching it when you can do it economically and without upsetting the rest of the world?—I do not think it can be done unless you can do it without completely upsetting the rest of the world. My argument is that if the first decision is taken that it is desirable, if possible, to give India a gold standard as soon as possible, then the second problem arises, is it possible to make such arrangements now or at an early date as will enable this to be done without upsetting the rest of the world?

554. (*Sir Henry Strakosch.*) And India, of course?—Certainly. India is as much interested as the rest of the world in seeing that her action does not simply destroy the value of the thing which she is trying to get for herself, because it would cease to be valuable to her if it caused such an instability or such a fall in prices as to amount to a complete reversal of the existing equilibrium, such as it is. I would, however, suggest that the moment just after the Great War, when things are not as stable all over the world as they might be, and when there is undoubtedly a large surplus of gold in certain parts of the world, is a moment when there may be opportunities for doing a thing of this sort, which may not recur when gold is more evenly distributed than it now is.

555. (*Chairman.*) You refer to the circumstance that in various Commissions and Committees the suggestion of gold circulation has been held out to India. Is it not relevant in connection with that point to remember the proposition, with which you agreed earlier in the day, that it had not always been clearly apprehended that a gold circulation was not a necessary accompaniment to a scientific gold standard?—I agree, though I think that some of the earlier Committees at any rate allowed themselves in writing their report to make assumptions about the necessity of a gold currency which were unnecessary.

556. (*Sir Purshotamdas Thakurdas.*) Is there any country amongst the Allied countries which took part during the war which has, as Sir Henry Strakosch has suggested, in accordance with Genoa resolutions, resorted to gold exchange standard instead of gold standard?—Of course, at the present time several of the Allied countries have completely fluctuating paper standards.

557. But England has returned to gold standard?—Yes.

558. What about France?—France has a paper franc whose recent value has deteriorated in proportion to the amount of the French Budget deficit which it has not been able to cover otherwise than by inflation.

559. What about Japan?—Japan is at present on no definite standard. Her exchange has depreciated, but she it no doubt attempting to work back to the gold standard of the kind that she had before the war.

560. She is not aiming at a gold exchange standard?—I am not sure to what extent gold circulates in Japan, but all these countries, I should say, are aiming rather at the international exchange standard than gold standard, in the sense of not desiring a large circulation of gold within their own country. England has succeeded in getting on to that, but that is a stage further ahead than it is possible for India to go at present.

561. I only wanted to know for my own information, because I do not know much about European currency systems, whether any country among those who were parties to the League of Nations has acted up to the resolution of the Genoa Conference.

562. (*Sir Henry Strakosch.*) Yes, all the modern currency systems set up or rather reconstituted since the war: Germany, Austria-Hungary are on the gold exchange standard; so is Holland. Holland has been on the gold exchange standard for a great number of years. Gold does not circulate in Holland, but notes and silver.

563. (*Sir Purshotamdas Thakurdas.*) But in Holland I should have thought that gold currency was very much in vogue?

564. (*Sir Henry Strakosch.*) No. Gold does not circulate in Holland, only notes and silver. (*Sir Basil Blackett.*) That is the difficulty. In India gold is wanted internally. In England it is enough to give gold for export. It may be broadly said that all the countries which have acted up to those resolutions have been getting into the position of having an inconvertible paper currency for internal use convertible into gold for export.

565. (*Sir Purshotamdas Thakurdas.*) In 1921 I think the paper was absolutely backed by gold?

566. (*Sir Henry Strakosch.*) Holland is on a gold standard. But gold does not circulate in the country. The Netherlands Bank will export gold, but there is no gold in circulation, nor is there any gold, as Sir Basil said, in circulation in the United States of America. They have certain gold certificates, but there is no actual gold in circulation.

567. (*Chairman.*) I believe there is a publication of the League of Nations which will give us full and accurate information upon these relative standards which it may be well worth while to obtain and circulate to the members of the Commission?—I have not really finished answering the question. I think

the answer is that every country that could do so is trying to educate its public up to the habit of being content with an inconvertible paper currency for internal circumstances, its absolute exchangability being maintained by the capacity to obtain gold for export. In some of these countries gold is actually in circulation to some extent. But in all of these absolute convertibility into gold is given, thought the gold is for export.

568. Just one final question on this aspect. You have told us in your memorandum, and I think again to-day, that you regard as a final ideal the system of an inconvertible note currency circulating and readily convertible into international currency for exchange purposes?—Yes.

569. In order to arrive at that ideal, the process is to educate the public by all possible means in the use of notes?—Yes.

570. Does it, in your opinion, recommend itself, as a means of such education, that you should provide them with another currency than a gold currency?—Possibly it may sound a little paradoxical; but I believe that is psychologically the only way it can be done owing to the existonce of the rupee, overvalued and with unlimited legal tender.

571. Then a last question on that; will it be easier to return from a gold standard by this process of evolution which you have just described to the ideal system of the inconvertible note currency than to arrive at it by a continunace of the evolution of the exchange standards?—That is the conclusion I have come to—I admit against my will—but very definitely, that it is not possible to reach the ideal system except through the temporary or otherwise extension into India of the use of gold currency. I believe it is necessary to make your ordinary means of circulation absolutely convertible into gold and to give ocular demonstration of the fact that it is so convertible before you can persuade the people especially of a continent such as India that an inconvertible note is entirely sufficient.

572. Is there any case of a population which has once been accustomed to even a partial gold circulation proceeding to an inconvertible note currency except under the influence of some great convulsion such as that of the great war?—I think the United States of America may nearly be said to be a case of that sort though, of course, there you had a civil war and green-backs and the long currency history. They did have civil war and green-backs and an incovertible paper currency, that had not a gold value; then it was given a gold valuo, and they have had the capacity to obtain gold and in practice did not use it except to some small extent, particularly in the Pacific Coast.

573. (*Sir Henry Strakosch.*) Would you say that we could have introduced an inconvertible note currency in Great Britain early in 1914, that is to say, take out of circulation the sovereigns current there and substitute for them inconvertible notes?—It is an hypothetical historic question, to which it is rather difficult to give a really useful answer.

574. (*Chairman.*) That is the ideal we contemplate as regards the future of India?—I do not think necessarily, because there is no suggestion of forcing the people of India to use gold coin habitually in circulation, but merely give them an opportunity of having it, as I believe they will habitually use the smaller coin rather than the gold one that I suggested should be given to them, namely, the twenty-rupee mohur.

575. With regard to the effective sterling exchange standard system, there is the actual benefit of an additional free balance of 18 crores?—Or, even ignoring that, some additional income from investments.

576. As regards the gold exchange standard, that allows whatever may be the additional cost of keeping a larger balance in gold in reserve?—Yes.

577. As regards the gold standard system the cost, according to Mr. Denning's original estimate, is 165 lakhs a year for the first 5 years, and about 112 lakhs a year thereafter?—Yes. May I suggest that you may take the figures in paragraph 20 of my note.

578. You suggest various proposals by which the cost could be reduced?—Either proposals for actual reduction of cost or inferences from the estimates that they are unnecessarily high.

579. In the first place, you reduce the estimate of 200 crores of silver rupees for substitution to 150 crores. In the second place, there is the proposal as to a silver import duty; and in the third place, a proposal for a reconsideration of the proportions proposed to be adopted for the new currency reservo?—The most important of those is in any case the actual amount, namely, whether the figure of 200 or some other figure is the right one, and that is the one that affects the proposal most. A definite proposal for minimising the cost is the 4 annas duty on silver. The proposal in regard to the modification of the proportions has some effect, but a comparatively small one, on the cost.

580. The substantial proposals are your re-estimate of 150 crores for substitution instead of 200 crores and a silver import duty. By these various means I understand that you arrive at the result mentioned in paragraph 26 of your memorandum?—Yes.

581. In fact, you reduce it, not to a vanishing point, but to an appreciable extent?—Yes.

582. I have one or two questions to ask on the silver duty on behalf of Professor Coyajee. Would not the proceeds of the duty on silver fall when Indians find that silver has entered on a course of very low prices?—I am not really relying on getting anything from the duty at all during the transitional period. The duty would act as a protection of the silver market, against any imports, in favour of the silver in the hands of Government; and if it is a 4 annas duty, such demand as there was for silver in India would be supplied entirely out of the Government of India's silver at some figure nearly 4 annas higher than that at which any silver could be imported from outside, so that probably there would be no import of silver during that period.

583. (*Sir Alexander Murray.*) In paragraph 13 of his note Mr. Denning says that when the gold standard is introduced, 74 crores of gold will be required for private imports, and that Government could force an increase in the private imports of gold of approximately 46 crores annually: will there not be another 20 crores necessary to replace silver which would not come in? That would bring up the imports of gold to about 140 crores per annum; if the silver does not come in, gold will come in?—No; my suggstion is that the imports of silver would cease, and in place of that the Indian demand for silver will be supplied by purchase from Government. For the time being there will be a reduction of the pressure of silver imports on the trade balance.

584. For the past three years an average of over 18 crores have come in?—That is about the figure.

585. What would take the place of this silver to adjust the balanco of trade?—It would enable the Government to make remittances of the proceeds of the silver sold here for the purpose of purchasing gold or buying credits outside India. In effect, it is the same thing.

586. (*Chairman.*) You are contemplating a reduction in the total imports of the country in proportion to the reduction of silver imports?—I am contemplating a very large increase, temporarily in the imports of gold, but stopping off of imports of silver would be one of the means by which the effect of the increased figure on the debit side in India's trade balance would be balanced.

587. It appears to me that you and Sir Alexander Murray are really at one, that the additional imports of gold which he referred to in this connection are really contained in the general increase in the imports of gold?—Yes. They have already been allowed for once.

588. (*Sir Alexander Murray.*) Mr. Denning does not do so in paragraph 13. He says, "Taking the sterling expenditure as £35 million or 46 crores and

neglecting remittance by Government in excess of the sterling expenditure, Government could force an increase in the private imports of gold of approximately 46 crores annually "?—But I do not think there is any need for the extra 20 crores that is coming in to take the place of silver. The suggestion is that the demand would be met without any further imports of silver for a long period from the Government's stock of silver.

589. How about your balance of trade then?—You are so much the better off. That gives India a better balance of trade to the extent of the cessation of the imports of silver. *Ex hypothesi*, the balance of trade including the extra imports of gold coming in would be turned against India to that extent. This absence of import of silver will be set off against that excess.

590. (*Chairman.*) I understand the assumption is that the importation of gold on private account continues as at present?—Yes.

590A. That really brings the two points of view together. The cost of the Gold Standard System is dependant upon the amount of gold required; and the amount of gold required is dependant upon those elements of certainty or uncertainty which we have analysed and which it is unnecessary to repeat; but we must recognise that if any of the adverse circumstances are realised they would probably increase the cost, such as the acceleration of the demand of gold for hoards?—I do not think they would proportionately increase the cost except in so far as they made the temporary borrowing involved come a little earlier. They do not increase the final result. The temporary borrowing is largely in the form of external borrowing, to meet the exceptional demand for external payments balanced by a corresponding diminution to a great extent of the amount of borrowing required in India. From the point of view of the budget, the two might be regarded as cancelling each other, but the point is that external credits are required rather than internal credits.

591. Let us take it from that point of view: supposing that one possibility were to be realised, that is a real upset of the world's gold prices, a fall in gold prices, and a rise in interest rates, that would increase the expense of temporary borrowings?—Why should there be a rise in the interest rates?

592. It will tighten up credit?—Yes, but a period of falling prices would tend after a short interval to lead to a fall in interest rates.

593. Might not the interval be coincident with the period during which you required to borrow?—Yes; that would not necessarily mean that the cost during the whole period of borrowing would be increased.

594. You do not see in the acceleration of the demand beyond that which is allowed for in the scheme any final increase in the cost of introducing the scheme?—I think the increase comes in only in so far as you have to hold a large stock of silver unrealised, and you are not able to use the proceeds of the sale of that silver for purchase of gold. You have to borrow a larger amount abroad, and the moment when you are able to amortise that borrowing out of the proceeds of silver is postponed, so that you have a longer interval during which temporary credits are required.

595. (*Sir Henry Strakosch.*) Those credits will be asked for at a time when you are going to withdraw very big amounts from the currency reserves of the gold standard countries?—They are for the purpose of enabling you to do so perhaps. I recognise that it is a somewhat bold request to put forward, first in the interests of India, and then ultimately of the world.

596. (*Chairman.*) From the general political point of view, might it not be said that if the Government of India has anything to give away in the way of financial benefits at the present time, that it has promised in the past to some extent to make use of these benefits for other purposes, such as reduction in the provincial contributions, removal of cotton excise duties, etc., and that if there is anything going they ought to come first and not a payment for the introduction of a new currency system?—I think I have said at one stage that I should not advocate the introduction of this unless the cost of it and the fact that that cost was to be met was as fully realised as it was possible to make it in India by all those concerned. I do not think it would be a breach of any undertaking on the part of the Government if it were to introduce a new currency system and find that thereby some of the directions in which it is desired to reduce taxation or give relief had to be postponed somewhat. It is a consideration that has to be met undoubtedly.

597. (*Sir Henry Strakosch.*) In order to visualise the effect of the introduction of the gold standard —and it is clear from Sir Basil's memorandum that he contemplates the establishment of a Central Bank, in these circumstances therefore to visualise the effect of introducing into India a big amount of gold, what would be the effect or what would have to be the policy of the new Central Bank in order to achieve that? Would not the policy have to be to keep a very tight hand on credit all the time, until saturation point had been reached, because there would be a need to attract gold from the gold centres, and that, of course, is done by raising the interest rate and keeping a tight hold on credit, because the flow of gold under that system would have to be automatic through the policy of the new Central Bank?—I think it is probable; I have not thought this out before. I think it is probable that just as we contemplate that it would involve exchange being kept normally at the gold import point for some little time, it would involve a policy on the part of those controlling credit and discount rates to avoid a period of too easy money. I do not know that it would necessarily involve periods of specially tight money, but it would probably involve action to prevent rates falling specially low.

(*The witness withdrew.*)

THIRD DAY.

Thursday, November 26th, 1925.

PRESENT:

THE RIGHT HON. EDWARD HILTON YOUNG, P.C., D.S.O., D.S.C., M.P. (*Chairman*).

Sir Rajendranath Mookerjee, K.C.I.E., K.C.V.O.
Sir Norcot Hastings Yeeles Warren, K.C.I.E.
Sir Reginald Mant, K.C.I.E., C.S.I.
Sir Henry Strakosch, K.B.E.
Sir Alexander Robertson Murray, C.B.E.
Sir Purshotamdas Thakurdas, C.I.E., M.B.E., M.L.A.
Professor Jahangir Cooverjee Coyajee.
Mr. William Edward Preston.
Mr. A. V. V. Aiyar, C.I.E. } (*Secretaries.*)
Mr. G. H. Baxter }

The Hon. Sir Basil P. Blackett, K.C.B., recalled, and further examined.

598. (*Chairman.*) Towards the close of your most helpful evidence yesterday, Sir Basil, there is one aspect on which I should like to ask one or two questions, that is, the topic which we postponed at the beginning of your examination, viz., the Imperial Bank of India. On that there are four questions I should like to ask, all based upon the assumption that there is a transfer of the control of the note issue to the Imperial Bank of India, and also a transfer to the Imperial Bank of the management of the Government's remittance business. The first question relates to the constitution of the Bank, the second to the capacities of the Bank, the third to the financial aspects of the transfer, and the fourth to the account between the Government and the Imperial Bank of India in respect of services performed by the Bank for the Government and (on the other hand) the privileges of note issue. We might take them in that order. Do you consider that upon the transfer of the control of the note issue, assuming that is done, it would be desirable that there should be any changes in the constitution of the Imperial Bank of India?—This is a question into which I have not tried to go very far because I believe that this Commission would itself be better fitted for going into that question and making recommendations on it than any of us in the Government of India at the present moment. It is undoubtedly, I think, a question which will have to be considered —if it is decided that it is desirable to transfer the management of the currency to the Imperial Bank— whether the existing constitution of the Bank and its existing relations with the Government are adequate; but I have not any definite suggestion to make as to what form the changes in the constitution of the Bank should take.

599. There is, I believe, a widespread opinion that in its constitution a central bank of issue should be completely independent of any form of Government control: can you tell us what conditions there are peculiar to India which would have to be considered in connection with that question?—In relation to the total of banking business of India the function of acting as the custodian of the Government's funds and managing the paper currency and making Government remittances is a larger proportion of the whole than is probably usual in other countries at the present time; especially, I think, in the matter of remittances, where the Government is making remittances for capital or revenue expenditure outside India to the tune of 30 or 40 million sterling annually—a very much larger proportion of the total remittance business of India than anything corresponding in other countries. Even when, just after the war, the British Government was remitting four or five hundred million dollars a year to America, that was a very much smaller proportion of the total remittance business between London and America than the figures I have given for India; and, of course, in London that could be done without anybody knowing what the Government was doing, and it is much more difficult here. I think it is the proportion that the work done in India in connection with Government bears to the total work that is probably the most peculiar condition in regard to India.

600. You are calling attention to the circumstance that the interest of the Government of India in the business undertaken by the Bank on its behalf is so strong that India would rather differ from the normal case?—I was not drawing any conclusion from the fact, but merely saying that it is one of the points that would have to be considered in this connection.

601. It does point rather in the direction of indicating that there is at any rate an intimate connection between the financial officers of the Government and the Bank to a greater degree than in the normal case?—Of course while I agree that a central bank ought to be a private institution, and its capital subscribed almost entirely if possibly from private sources and in a position of entire independence politically, and representing the economic life of the country as a whole, at the same time it is most important that there should be a close co-operation between the Central Bank and the Government. There could not have been any closer co-operation that there was, or now is, between the Treasury and the Bank of England in the period since the war; and a very close co-operation of some sort is I think essential between a Central Bank and the Government. It need not necessarily be to any great extent controlled by the Government I think. Of course, as things are at present, we have the Controller of the Currency as a Member of the Central Board of the Imperial Bank.

602. But you point to the circumstance that experience elsewhere teaches one that it is possible to attain the necessary degree of co-operation without any formal or organized action by way of the establishment of partial control?—Yes. Historically, the Imperial Bank was formed by the amalgamation of the three Presidency Banks. There was this aspect of the establishment of the Imperial Bank that it was in the nature of a bargain, an arrangement between the three Presidency Banks and their shareholders on the one hand and those who were negotiating the unification on the other, the Government, so that the present constitution of the Imperial Bank represents something in the nature of a mutual agreement which might be looked upon as something of the nature of a sacrosanct charter by the shareholders in the original Presidency Banks.

603. Do you feel that there is any possible difficulty from the point of view of that condition in introducing large changes into the constitution of the Imperial Bank?—I doubt if those who were responsible for the constitution of the Imperial

Bank by the amalgamation of the three Presidency Banks expected that the exact form the Act would take at that time would remain unaltered for a very long time. I think they must have felt that it was a first step, to some extent experimental, and that alterations would naturally be made as time went on. In particular, of course, that is true is regard to the ten year contract between the Imperial Bank and the Government of India for the management of the Government balances. At the same time the shareholders have got to be treated with strict justice in any change that may be introduced; and the existing shareholders, who of course are the successors of the previous shareholders of the Presidency Banks, will have to be considered, and presumably will have to express their concurrence before important changes can be carried through, unless there were some suggestions for buying them out, which I hope will not arise.

604. By amalgamating the three Presidency Banks the shareholders in some degree surrendered a measure of independence?—They may have surrendered a certain amount of independence, but I do not think they have had any reason to complain that they have not done well out of the change. But it does necessarily mean, I think, that there must be a gradual transfer of emphasis, in regard to the work of the Imperial Bank, from the mainly commercial banking work that was done by the old Presidency Banks, to something more in the nature of work done by a banker's bank for the other banks in the country.

605. The second point is, as a condition of transfer, do you consider that it would be necessary to define more fully the capacity of the Bank as a trading concern, and if so in what direction?—The direction is easier to answer than the details. The direction is that of making the Imperial Bank a bankers' bank chiefly engaged in guiding the credit policy of the country and the financial policy, and run not mainly for private profit but more or less on a fixed dividend, with a reasonable return on capital, and not doing, at any rate in the Presidency towns, ordinary commercial banking in normal times, but more in the nature of rediscounting for other banks. Of course, upcountry it must have considerable freedom to do ordinary commercial banking. It has opened branches in new places, and I think it was Mr. Keynes in his annexe to the Report of the Royal (Chamberlain) Commission of 1913-14 who originally made the suggestion that the model should rather be that of the Bank of France than the Bank of England. We have now an Imperial Bank with a hundred or very nearly a hundred branches newly opened since 1920, in addition to the ones that existed before all over the country, which is of course quite a different model from the Bank of England.

606. In particular, would you look upon it as desirable, to attain those ends, that there should be a statutory obligation upon other banks to keep balances with the Central Bank, something in the nature of the Federal Reserve system, which requires a bank to keep balances with the Federal Reserve Bank,—and I believe it is also the case in South Africa?—It would be a matter for consideration. I am not sure that compulsion will be necessary in such a case, as soon as it becomes a central bank of issue. At present, I believe, all the important banks keep balances with the Imperial Bank.

607. (*Mr. Preston.*) We keep very large balances with the Imperial Bank?—Sometimes they are very small balances, even negative balances.

608. (*Chairman.*) What would be the effect of such a statutory provision upon the mushroom upcountry bank?—May I say, the upcountry bank is not necessarily mushroom.

609. Let me hasten to remove that implication by saying, an upcountry bank which is a mushroom bank?—I suppose it would give the Imperial Bank some power of controlling the opening of mushroom banks and to that extent and in that sense might perhaps assist the wise development of Indian banking. On the other hand the word "bank" as you know is very difficult to define. Banking business in India is done in all sorts of gradations—from a man who is little more than a village shop-keeper to the big Exchange Banks, or the Central Bank of India, and so on to the Imperial Bank. It is a little difficult to know at what point you would begin your obligation to make a bank keep balances with the Imperial Bank. You would hardly expect every village tradesman to do so.

610. The use of the word "bank" being such an important element in the situation, there might be some advantage in making the keeping of such a balance a condition of the use of the word "bank"?—Or you might perhaps distinguish between a registered and an unregistered bank? I think the use of the word "bank" has deceived many.

611. In nine cases out of ten it is the case, is it not, that when the public is deceived by an unsound institution it is deceived by the use of the word "bank"?—Yes.

612. Could you define a little further the limitations upon banking business in the financial centres to which you refer as being desirable in the case of a Central Bank for India?—Leaving out of question all exchange business, which is special, one would suggest that its business should be in that event confined as far as possible to such business as financing the trade and industry of the country by rediscounting general commercial bills of a currency of not more than say three months with two good signatures,—but that is rather a difficulty in a country like India, because in a country which is largely engaged in agriculture three months is somewhat short.

613. (*Sir Henry Strakosch.*) In South Africa a provision has been introduced enabling the Reserve Bank to discount bills with a currency up to six months subject to certain conditions?—I think it would make advances against bankers' drafts bullion, short-term Government securities and so on, again with a short-term condition if possible. I have endeavoured to note down some of the limitations, e.g., that it should not as a rule engage in trade or have any interest in commercial, industrial or other undertakings, etc.

614. It should not engage in trade, lend on debentures, make unsecured overdrafts?—It should be lending rather than engaging in trade. There is always the difficulty as to where the line of demarcation is. It should not advance money on mortgage of real property, or make unsecured advances, or draw or accept bills otherwise than on demand,—and then there is the rule that has been applied in a good many Central Banks, that it should not pay interest on balances on current account. The Bank of England I believe makes it a rule that it never gives interest on balances on current account, nor I think does the Bank of France, though of course arrangements are made by which it acts as agent for lending out money for its customers and it gets over that difficulty in that way.

615. (*Chairman.*) What would be the difficulty in India? Do you feel that there would be a difficulty in inhibiting a Bank from giving interest on current account in India?—Not on current account absolutely,—but on money deposited for a certain time it always has been the habit in India to give interest, and I doubt if it would be possible to develop the deposit habit in India unless that was fairly freely allowed; and as I say the Imperial Bank has got to do a certain amount of ordinary banking upcountry, and it is as a matter of fact I believe found that it does in a good many centres get money on short deposit, by offering a rate of interest, which otherwise would not be banked at all and that of course is obviously in the interest of India.

616. This is perhaps rather a question for the officers of the Imperial Bank but it may be that you can enlighten us upon it. Is it the case that, as a result of the amalgamation of the business of the old Presidency Banks, the Imperial Bank has still on its hands any volume of private business which should not be looked upon as properly the business of a central bank of issue?—Of course the Presidency Banks were subject to considerable limitations, and there is a good deal of banking business that the Imperial Bank is not now allowed to do, such for example as lending on mortgage; and there are a good many other limitations so that I fancy that the tendency must have been for the class of business which one wants to exclude at any rate from the head offices of the Central Bank to be excluded; but, of course, there are people here who would answer that question better than I can.

617. (*Chairman.*) Before I pass on to the next question, are there any supplementary questions on the constitution and capacities of the Imperial Bank?

618. (*Sir Norcot Warren.*) What is your opinion on the point that was raised that the Presidency Bank might do commercial business up country and no commercial business in the Presidency towns?—I recognise that that is a very difficult problem. It must be a question of originating business

619. I should think it is impossible. I do not know whether I am right, but I might ask Sir Henry Strakosch whether in South Africa the Central Bank was purely a central bank at first, and then they found they had no customers to lend to, and the Statute of the bank had to be altered to admit of their doing commercial business?

620. (*Sir Henry Strakosch.*) Yes, with limitations imposed upon the bank by its statutes, which were expanded so as to enable it to do some kind of commercial banking business; for instance, it is customary in South Africa also to allow interest on deposits, but that provision has remained in the Bank Statutes. Therefore its sphere of operations is very severely curtailed. Nevertheless it does do a little of the commercial business; but, of course, that is never capable of material expansion, because the bank cannot offer the facilities which an ordinary commercial bank could. But, of course, the bank has at times to enter into the general business of the country in times of stringency and stress.

621. (*Sir Norcot Warren.*) I say that the case is exactly the same as that of the Imperial Bank.

622. (*Chairman.*) At present.

623. (*Sir Norcot Warren.*) At present we are prohibited from doing all sorts of business by the Act. You have only got to read the Act to see the way we are limited.

624. (*Sir Henry Strakosch.*) Of course, your Act is far wider, and gives you much more scope than the South African Reserve Bank Act, and it is for that reason, I submit, that the statutes are not really the statutes of a real central bank.

625. (*Sir Norcot Warren.*) I quite agree with you; but at the same time, just as in the case of the Bank in South Africa, who are we to lend to? What banks are we to lend to, or re-discount their bills? There are only about three banks in India we might lend to. The Exchange banks I suppose would not want to borrow; there is only the Central Bank of India, the Bank of India, and perhaps the Punjab National Bank.

626. (*Chairman.*) Let us see if we can frame these points into a question, because Sir Basil is the best witness we could put the point to. I think it is really contained in your original question, Sir Norcot Warren, as to the difficulty of distinguishing between the business of a branch and the business of the head office, and to that Sir Basil has really given us his answer that he does see substantial difficulty?—May I say that in the answers I have been giving I was quite consciously rather suggesting the model statutes for a non-existent central bank than suggesting the exact form of the business that should be done by the Imperial Bank of India, and I recognise that a very great deal of adaptation to circumstances would be essential in India. Whether you could get even approximation to some of the central banks recently set up, in Central Europe, for example, is a very moot question. For instance, when we were dealing with a new central bank for Austria it was a very different problem from the one we are dealing with in India.

627. This scheme being obviously so largely experimental, that is, as to the effect of a true central bank upon Indian commerce and industry, that suggests the desirability, if possible, of establishing some machinery for the revision, without undue waste of time and elaboration of legislation, of the provisions as to this matter. Is that a matter which perhaps should be taken into consideration in framing the definition of the capacities of the central bank?—You would suggest something in the nature of rule-making powers in the Government to alter the rules without coming before the legislature?

628. Are there precedents for such a maxim in Indian legislation?—I was wondering whether the bank would like that power to exist—*viz.*, that the rules could be altered except otherwise than on its request or something of that sort. I have not thought out anything on these lines. I think it is possible to exaggerate the difficulties of getting an Act through the legislature.

629. (*Sir Henry Strakosch.*) If I may say so, I think it would be rather dangerous to allow changes in the statutes of the Bank to take place without the authority of the legislature; but I should imagine that it should be possible to frame statutes to meet the requirements of India. Obviously in a country where banking is so in its infancy one might have to introduce rules and statutes which differ from the rules of a central bank in a country with a highly developed banking system, and nevertheless retain the salient features of a central bank, to perform its functions properly. I should say it is not impossible to frame statutes on those lines?—I feel confident that it is not impossible if desired.

630. Of course, while the number of banks with whom the Imperial Bank would have business relations at the moment is small, I believe the fact that the central bank exists, and is able in times of stress to offer facilities for rediscounting and, moreover, that any of its business connections could only be established when the Imperial Bank has satisfied itself that the bank is run on sound lines would eventually lead to purifying the commercial banking system of the country; it will have to act at first principally as an educational authority, to build up a sound commercial banking system.

631. (*Sir Norcot Warren.*) And while the education is going on, what is to happen to our dividends?

632. (*Sir Henry Strakosch.*) The dividend is all right, I think; you have got the right of note issue, and you will have the benefit of the deposit of a substantial amount free of interest; I am not worried about the dividends; in fact, I think the dividends may possibly be too high, unless you make provision to limit them, as is the rule with many central Banks.

633. (*Sir Basil Blackett.*) Is it suggested that the dividend should be paid at the expense of the Government out of the Government's share of the profits on the note issue?

634. (*Sir Henry Strakosch.*) My ideas are—and they have been adopted in very many statutes—that a certain maximum dividend should be allocated to shareholders, and the surplus should be devoted first to building up good reserves, and the balance to go to Government.

635. (*Chairman.*) We will take that as a separate heading—that is, the terms as between the bank and the Government; it appears to me that Sir Basil has really taken us as far as he could in what he has told

us as to the possibilities regarding the financial capacities of the bank?—Rather further.

636. (*Sir Reginald Mant.*) Sir Basil, I understood you to say that theoretically the central bank ought to be independent of Government. Do you think that in the circumstances of India it will be possible to find competent management and direction for a central bank in charge of the currency, if it is cut off from the assistance and advice of Government officers?—Is it really cut off from the assistance and advice of Government officers by being made independent? Admittedly the problem of getting first-class management is a difficult one anywhere, and probably especially difficult in the transition stage in India. But I think there is always a tendency in life, when a difficult task has to be done, for the man to turn up, attracted sometimes by the very difficulty of the task.

637. You have not the resources or anything like what you have in London, for instance?—Certainly not at present; but London is not the only comparison.

638. But you think that the difficulty is not insuperable?—One would hope not; obviously one cannot say really more than that.

639. You have said that it is desirable to get the currency business out of the political arena—that the transfer to the bank was desirable for that reason. Do you think that the management of the bank could be kept out of the political arena?—I do not think I put it like that—that it would get it out of the political arena; what I said was that it would get it into a commercial and business atmosphere. The Bank of England has, on the whole, succeeded in keeping out of the political arena in England in spite of considerable temptations at times for it to come in and for it to be drawn in.

640. Have not political issues been raised in connection with the bank—such as Indianisation, for instance?—They are bound to be—in connection with anything in India.

641-2. They are raised in connection with every industrial company—that same issue of Indianisation. You cannot get away from politics by transfer to the bank?—No. But I think you get it into a different atmosphere.

643. (*Chairman.*) Now on the third question to which I referred, still assuming transfer of control of the note issue, I want to refer to the question of any necessary readjustments in the capital account of the bank, and in order to make my question clear, I put it in this way: as I understand, by the transfer it is proposed that the bank should take over the assets and the liabilities of the currency reserve; but now as to the gold standard reserve, what would you propose as to the adjustments in the capital account of the bank as regards the gold standard reserve?—If it took over the assets and liabilities just as they stand, an equal amount of both, it is not absolutely essential that there should be readjustment of capital.

644. What would be the liabilities as against the assets taken over from the Gold Standard Reserve?—The outstanding notes.

645. Are not those covered by the assets of the currency reserve?—That is what I mean; I was referring to the position under a gold standard they would take over the liabilities for the outstanding notes, and on the other side they would take over the assets, which in my suggestion include a considerable amount of Government of India Debt, some of it newly created, in the form of book debt to cover the nominal loss from the sale of silver. It would not necessarily involve readjustment of capital; it might be desirable, but it is not absolutely essential.

646. But here is the gold standard reserve of £40 millions without any defined liabilities of any sort against that asset. That will now appear in the balance-sheet of the Imperial Bank, and what is set against it in the balance-sheet?—The gold standard reserve would under the gold standard proposal have been completely used up in buying gold; it would have disappeared.

647. Under the gold standard proposal?—Yes, because the whole of it would have been required, or very nearly the whole of it, to pay for the gold that is needed for importation into India.

648. But that gold would either be held by the Imperial Bank or it would have been paid out in return for some other asset, would it not?—It would have been paid out for silver rupees, which would have been melted down and involved a loss.

649. There being only a balance remaining, the bullion value of the rupees melted down?—Exactly.

650. So that we reduce the free asset as it were to the bullion value of the rupees purchased with the gold?—Yes.

651. And what would appear against them on the other side of the sheet?—The Government of India book debt against the loss.

652. Against the continuing asset?—There is no continuing asset, I think. The best way I can answer that question is this: in paragraph 25 of my memorandum I have suggested a constitution for the new reserve. If you will take the second of the two tables there, I have suggested that against their liability for redemption of the notes and for the maintenance, of course, of parity of exchange the bank should hold a minimum of assets in the reserve of 45 crores of gold, 90 crores of Government of India Book Debt, and 54½ crores of sterling and other gold securities. Would not the bank have paid sufficiently for being given those assets by taking over the full liability to redeem the notes *plus* the liability to pay something in respect of the profits? My point is, it need not necessarily involve an alteration in the capital account.

653. It appears to me at first sight as if the liability of the bank to redeem the notes was set against the assets taken over from the currency reserve, and although a further liability has been taken over which it may be said is to be set against the assets of the gold standard reserve, the question is how that liability is to be defined?—I think the only liability that is left at the stage I am contemplating is the liability to redeem the notes. On this hypothesis there is 189½ crores of notes in existence, representing the promise of the Government of India to pay on demand. The bank takes over this promise and substitutes its own notes for them in due course—not, of course, immediately, but over a certain period of time; and as its own notes are substituted for these Government notes it takes over the assets that the Government has. There will not be any surplus assets under the gold standard proposal, because the gold standard reserve will, I think, have been fully dissipated in meeting the loss on sale of silver rupees.

654. (*Sir Henry Strakosch.*) Sir Basil, what you have just told us refers to the introduction of the full gold standard with gold in circulation. But is not the position somewhat different if the gold exchange standard or sterling exchange standard were to be introduced? In that case, as I understand the position, there would be the liabilities of the note-issue and assets to cover that fully, but in addition to that there would be 50 crores of reserves which have been set aside to meet the requirements for external stability of the rupee coin circulation; that is, an asset which would have to be taken over by the Imperial Bank, against which there is that liability?—A liability against which there is no asset.

655. No; there will be assets against which in the books of the bank there will not be any liability; the assets would be 50 crores, which, according to your scheme, would be set aside as a reserve for stabilising the exchange. A liability has to be created to meet that asset, and would you consider it an appropriate method if the Imperial Bank were to partially find that liability in increasing its capital and partially

as a deposit by the Government in terms of the charter?—I agree that the particular form of currency system chosen requires dealing with separately. What I was dealing with was the gold standard. I think that was the question that the Chairman was asking me. The arrangements with the bank will have to be different either under the gold exchange or the sterling exchange standard. In my memorandum I have suggested that there will be an additional liability of 50 crores created to represent the liability to maintain the exchange value of the rupee, and that against that gross liability for notes *plus* the 50 crores the Government should hand over to the Imperial Bank assets of the paper currency reserve and gold standard reserve up to that total. Under the sterling exchange standard I have suggested that that leaves a surplus of 18 crores on my figures which the Government would not hand over, but which they would retain for themselves as surplus. The suggestion of Sir Henry Strakosch is that the rupee liability of 50 crores should be expressed either in the form of an addition to the bank's capital, paid for, I suppose, by the Government by handing over these reserves and representing Government holding therefrom in the bank's capital. . . .

656. My suggestion was that I think 50 crores increase of capital would be unduly high; that a part of that 50 crores should be used to increase the capital, and a part of it should appear in the bank's balance-sheet on the liability side as a deposit by the Government for the term of the charter?—That is to say, the capital of the bank will be increased by any round figure, say 10 crores, and the Government would subscribe for that 10 crores by handing over 10 crores of assets of the currency reserves—really the gold standard reserve. In addition the Government would make a deposit of (on that figure) 40 crores, paid for by handing over 40 crores more from the gold standard reserve; and is that to be an interest-bearing deposit?

657. No; free of interest?—The Government getting its return, on whatever arrangements were made, out of the profits on note issue? That would be quite a feasible plan, as far as I understand it, if the shareholders of the bank could be brought to see its benefits.

658. If they get a free deposit of 40 crores they ought to be jolly glad?

659. (*Sir Norcot Warren.*) And no party to lend to.

660. (*Prof. Coyajee.*) Would not the liability be the statutory obligation to redeem rupees as they are offered for conversion into foreign exchange, and therefore you might save a certain proportion of the difference between the nominal value of the rupee and the bullion value?—That is ultimately what I have suggested; only I have taken the arbitrary figure of 50 crores as measuring it.

661. (*Sir Henry Strakosch.*) May I suggest that that does not seem to me to be correct. The bank undertakes, under its charter, to maintain the value of the rupee coin or notes, and for that purpose it needs an exchange reserve. It receives an asset from the Government of 50 crores and its liability is to maintain the exchange value; but you cannot express that in a balance-sheet; you must set against it some concrete figure; hence my suggestion. Sir Basil, the present capital of the Imperial Bank is 11¼ crores subscribed, of which 5⅝ crores are paid up. Would you not consider it desirable, when the Imperial Bank is remodelled and established as a pure central bank, that the uncalled capital should be cancelled and the paid-up capital increased, my reasoning being that a liability on bank shares, especially of a central bank, is not worth much, because, if the Imperial Bank has to call upon its shareholders to pay up the rest of the capital, one may suppose that the conditions are such that none of the shareholders will be able to pay it?—I am quite prepared to agree as a general principle that an uncalled liability on bank shares, particularly central bank shares, is not a very valuable asset in time of trouble for the creditors.

662. And that therefore it would be advisable to cancel the uncalled capital and rather increase the other. And then another question. Would you consider a capital of 10 crores paid-up sufficient? At the present moment, as I said, the paid-up capital is 5⅝th crores. I may perhaps say that the principle which has guided many people who have framed the central banks was that the capital of a central bank should be moderate, as, in fact, the Bank hardly ever needs its capital except as a reserve, and that a big capital would be rather an inducement to a central bank to launch out into business which it would not otherwise do, and for that reason it is well to keep the capital of the bank within reasonable limits. Would you, in these circumstances, regard 10 crores as an appropriate capital?—I don't think I have any very definite view until one sees the exact scheme. It is rather hard to express any definite view. I would agree, I think, that the figure of the capital, as it is at present constituted, would look a little bit low in relation to the gross liabilities if the Imperial Bank took over the note issue.

663. (*Chairman.*) Then we come to the last of my four headings on this part of the subject and that is the account as between the Imperial Bank of issue and the Government. The Imperial Bank of issue would perform the following services for the Government. It would be doing the remittance business for them, and it would be controlling and managing the note issue for them. Are there any other services to be taken into consideration?—Of course, the bank will continue presumably to be the depository of Government balances?

664. That is on the other side. I was thinking of that as an advantage to the bank. The bank manages the rupee debt for the Government?—Yes. It does not do all the functions that the Bank of England does. There is a separate public debt office, but that is merely a question of machinery.

665. What business is transacted at the public debt office?—The business of transfer and all the business of registering transfers and so on which in England is done in the Bank of England—rather peculiarly in the Bank of England. I think it is rather peculiar to the English system that the Bank of England is the actual registrar of the debt.

666. And the business transacted in connection with the rupee debt in the Imperial Bank is the business of issue?—The business of issue and the payment of dividends; and of course in England they have recently taken over the actual management of the rupee debt from the Bank of England.

667. Is a register kept in England?—Yes.

668. Then, on the other side, the Imperial Bank of India has the use of Government balances?—Yes.

669. And it is proposed that they should have the privilege of note issue?—Yes.

670. In Mr. Denning's memorandum there are three methods suggested by which the Imperial Bank of India might make the balance payment in respect of these particular services?—Or rather, of the one particular service of managing the note issue.

671. I understand that it is proposed that it should be the only payment made by the Imperial Bank of India to the Government, or on the other hand that there should be no further payment by the Government to the Imperial Bank of India?—Yes, but I think Mr. Denning was intending really to deal with this question by itself, without raising questions of the payment made or not made in respect of other functions of the Bank. He wished to deal with what payments the Bank should make in respect of monopoly of note issue.

672. Are you contemplating that this should be in fact the only payment made as between the two parties?—At present the arrangement is that there are no payments made either way except the pay-

ment that is made in respect of the issue and payment of dividends,—what is called the management of the debt.

673. Is something in the nature of a fee charged in respect of the service and management of debt?—Any payments of that sort were left out of account in this memorandum. Mr. Denning dealt solely with what was a reasonable arrangement between the Bank and the Government in respect of these particular functions. They might of course be combined with other functions. In that case we should have to look into the other services.

674. I don't quite follow your last point?—You might take the whole of the relation of the Bank and the Government as a whole, and consider in respect of what service, if any, the Bank should make a payment or you might even have an arrangement by which the Government got its payment in the form of a share of profits. Or you might isolate each particular service that is rendered and consider whether in respect of it there should be or should not be a payment and deal with it by itself.

675. Which procedure would you recommend? Would you recommend that the mutual account for services should be balanced by a single payment in respect of the privilege of note issue?—I am inclined to think that at any rate the easiest way to approach it is to leave other things as they are and consider what payment the bank should make in respect of note issue.

676. So that the only other circumstance which we would have to keep at the back of our minds is that a payment is made in respect of the control of the debt?—And that the Bank gets the use of the Government balances without charge; and would get, not improbably, some slight additional control of the balances if the system suggested regarding remittances to England were adopted. Because in that case the balance might tend to be slightly higher in India and slightly lower in London.

677. That is the circumstance to which we referred yesterday. Then, in Mr. Denning's memorandum with regard to the payment of the Imperial Bank, three alternative courses are suggested, (1) that the Government might take a share in the profits of the Bank, (2) a separate profit and loss account might be kept for the note-issue department of the Bank, and Government might take annually all, or nearly all, of the profit shown therein, (3) the Bank might pay Government a percentage on the amount of the invested portion of its Currency Reserve over and above a fixed figure which would be free. Of these three alternatives, do you feel able to express a preference in favour of any one?—A preference is expressed in Mr. Denning's memorandum on the whole in favour of (3). I do not feel that I myself have so far got to the bottom of this question sufficiently to express a decided preference for any. It would depend on the whole arrangement arrived at. For instance, there are undoubted attractions in the suggestion that has just been made by Sir Henry Strakosch in regard to the Government getting newly created shares in the Bank; in which case you would introduce there a new set of circumstances and the whole would be reconsidered in that connection. But method (3) is undoubtedly the simplest. I don't know whether the Commission have seen a note circulated a day or two ago by Mr. Denning on the profits obtained by the Government from the existing note issue. That brings out some of the difficulties of the second alternative. If you look at the Appendix you will see that the profit varies enormously. And if a separate profit and loss account was to be kept, it would seem to involve some rather difficult calculations, and also to involve some control, for example, by the Government over the salaries paid to the people who are working in the Currency Department, which I think would be very undesirable.

678. (*Sir Henry Strakosch.*) Particularly so, if the fiduciary part of the note issue were covered by commercial bills?—Particularly.

679. Have you any other suggestions to make on method (1)?—I think at the back of my mind I have a preference for something in the nature of method (1). But I have not worked it out.

680. Those reasons in favour of method (1) which are at the back of your mind are not yet sufficiently formulated?—It would depend so much on the development of the proposal. On the lines, for example, just suggested by Sir Henry Strakosch of the Government becoming a shareholder.

681. May I just say this, that, of course, quite apart from the Government being a shareholder and therefore drawing its dividends from that share holding, the main revenue would of course come by way of surplus profit?—Yes.

682. (*Chairman.*) Then I think we must leave your evidence on that point in this state, Sir Basil, that method (3) commends itself on account of its simplicity; method (2) presents difficulties because of the considerations involved in striking a balance of profit and loss and the question of some form of Government control. Method (1) may have factors to recommend it but on the whole it is impossible rightly to decide which is the most appropriate method except after a decision as to the actual arrangements involved in substance between the Bank and the Government?—Yes, that expresses my opinion. I must apologise to the Commission for not being able to give them any other guidance in this matter.

683. If I may say so, Sir Basil, it needs no apology because the doubt is due to the circumstance that one cannot arrive at an exact decision until one knows precisely what the arrangements between the Bank and the Government are to be in substance?—Quite so, and that is what I have in mind. A good deal depends on what is the arrangement made in regard to the powers of the Bank, *e.g.*, as to the taking over by the Bank of the remittance business of the Government. That may involve, for example, the extension of the Bank's powers to deal with exchange, a point which perhaps I might have mentioned when you were asking what changes in the constitution would be required. And it may involve some addition to the Bank's capacity to earn profits at the expense of Government, which to some extent go to Government at present; I mean in connection with remittances. And that would have to be taken into account, I think, as well as the direct profits on note issue.

684. (*Sir Henry Strakosch.*) But which would come back if the Government share the profits of the Bank?—That is one of the reasons why I have at the back of my mind that a share of the profits might be a useful method.

685. (*Prof. Coyajee.*) How does the Government share the profits of the Bank, in France? Can you throw any light on that point?—I am afraid I have not got it actually in my mind. There are so many different methods in the various countries. It is rather difficult to carry in one's head all the different arrangements. There are different arrangements for different countries. They are not very difficult to obtain.

686. (*Chairman.*) We will have this ascertained, Mr. Coyajee. I am sure, Sir Basil, the Commission would like to express their very warm thanks for your evidence and the most helpful manner in which you have given it. I hope that we have not occupied too much of your time?—That certainly is not the case. Thank you.

(*The witness withdrew.*)

The Hon'ble Mr. A. C. McWatters, C.I.E., I.C.S., called and examined

687. (*Chairman.*) Mr. McWatters, you are the Secretary in the Finance Department?—Yes, Secretary to the Finance Department of the Government of India since March, 1923.

688. And for the sake of our record, will you tell us what your previous experience was?—I have been 21 years in the Government service in India, of which the last 16 have been spent almost continuously in the Commerce and Finance Departments of Government in various appointments, including Wheat Commissioner during the War, and Controller of Hides and Wool; in December, 1920, I became Controller of the Currency, becoming Finance Secretary in March 1923.

689. You were Controller of Currency for two and a half years?—Yes.

690. I understand that you are giving us evidence not as representative of the Government of India, but in your personal capacity?—Yes.

691. We have had the benefit of receiving from you two memoranda—an historical memorandum upon the recent history of the Indian Currency and a memorandum on the stabilisation of the exchange?—Yes.

692. And in addition to that you have taken part in the discussions, as appears from the memorandum, between Sir Basil Blackett and Mr. Denning, the Controller of the Currency, upon which both these memoranda and others with which we have been supplied are based. But, I repeat, in all these memoranda you are expressing your personal views?—Yes.

693. Now, let me turn in the first place to your historical memorandum. Passing to the events of the war period during which the Indian currency system had new and strange experiences, could you tell us in general what the effect of the abnormal events of that period have been upon the currency system in India?—When I arrived in India in December, 1920, I think it was fairly easy to obtain a general view as to what had happened in the immediately preceding period and why the attempt which was made in 1920 had broken down. I think, in very brief, it was that neither the reserves of the Government of India nor the position of the business community permitted such reduction in the currency as would have been sufficient to maintain the exchange at the rate which had been recommended by the Babington-Smith Committee. When I arrived in the country the rate was already 1*s.* 6½*d.*, the attempt to maintain the two shilling rate having been abandoned late in the autumn. By February it had reached 1*s.* 4*d.* By that time the swing of the pendulum, owing to the great fall in prices elsewhere and owing to the entire change in the balance of trade, had practically made it impossible for the Government of India to do very much directly to support exchange. In two ways they tried to help the situation. The first was by avoiding so far as possible any action which would prevent exchange rising. They were able, for instance, to utilise the large sterling receipts which they had, mainly owing to payments received from the War Office, in meeting their sterling expenses. They were able to borrow to a considerable extent in England and they kept out of the Council Bill market altogether for a period of years. At the same time they did actually make certain small reductions in currency. The greater part of the reductions were made before March 1921. The last was in August 1923. The second thing was that they endeavoured to put their financial house in order by balancing the budget; and also by borrowing both in India and at home so as to clear out of the way the extremely large and dangerous volume of floating debt in the form of Treasury Bills which at one time exceeded 50 crores. They succeeded in doing that, and it was not until that was accomplished that any action which they were able to take in reducing currency could have had much effect. I think reductions were practically nugatory so long as we had continued deficits. The deficits in 1921-2 exceeded 20 crores; this was reduced to 15 crores in the following year; and then, largely as a result of retrenchment, and also thanks to good seasons, they were able to get a surplus of two crores in the following year. And last year also there was a satisfactory surplus. I think that putting their financial house in order probably helped more than any action which they took in restricting currency, towards strengthening exchange. When exchange reached 1*s.* 6*d.* sterling in October, 1924 the position then arose that Government had before them, as Sir Alexander Murray knows, a strong representation from the Bengal Chamber of Commerce which pointed out that the commercial community were much exercised as to the possible results of the next busy season. They saw no chance of avoiding extreme fluctuations in exchange unless some definite action was taken by Government, and the Government at that time came to the view that any substantial rise in exchange above 1*s.* 6*d.*,—with possibly fluctuations up and down—might be extremely harmful.

694. Let us stop at that point and take the principal events in connection with the currency since the abandonment of the effort to maintain the 2*s.* standard. Let me take you a little further back and ask you this. I understand that the principal feature of the war period was the enormous demand for currency. Is it a conspicuous historical feature that the result of that has been to leave India with more elastic currency system than it had before the war?—I think that there was one very marked change in the course of the war period, and that is the great increase in the paper currency and the much greater readiness on the part of people in India to take paper currency. The increase is very marked throughout the war period and it has received no setback since. To that extent the currency is more elastic.

695. There has been an increased willingness to make use of notes?—Yes.

696. Also there has been a great expansion in the fiduciary issue?—Yes.

697. The last expansion was I think in February 1925 when the maximum was raised to 100 crores?—Yes.

698. The whole of that maximum is not now worked up to?—The increase from 85 to 100 crores was a permissive increase taken in view of the possibility of Government having to increase the currency in the event of extreme stringency in the busy season. Actually the fiduciary issue has not reached the figure permissible before, and a margin of more than 15 crores still remains.

699. Have we not in that fact an element of elasticity which there was not before the War?—Yes.

700. In the second place there was the new feature of the power to issue emergency currency against bills of Exchange?—That was originally 5 crores. It was raised to 12.

701. The date on which that came into force was October, 1924?—Yes, and the conditions under which it can be used have been modified; they are more liberal than when first introduced. At first nothing could be taken under 8 per cent.; but now the first 4 crores can be taken at 6 per cent. and the remainder at 7 per cent. or above.

702. Resuming now your historical account at the point at which I interrupted it, we got to the point at which the rupee had arrived at 1*s.* 6*d.* and you tell us in para. 18 of your historical memorandum that the action taken by the Government of India since October 1924, the date in question, has been directed towards preventing the rise of the rupee above 1*s.* 6*d.* Will you tell us why the action of Government was necessary at that point?—I think the real answer is that it was the beginning of the busy season. I do not think the fact that it coincided with 1*s.* 4*d.* gold was the deciding factor. I think, as I have already

said, it was due to the strong representations of the commercial community and the anxiety of Government in regard to the coming busy season; and as exchange was very strong that meant steadying the exchange at the upper rate.

703. Then shall we put it in this way, that it was considered that action must be taken at some time and the commencement of the busy season was the right moment at which the action should be taken?—It was the only moment to prevent, what we considered, might lead to serious trouble. If we had postponed action, as was proved by the actual purchases in October, it would have resulted in the exchange rising well above 1*s*. 6*d*.

704. That perhaps does not quite answer why the 1*s*. 6*d*. rate was chosen as the rate above which it was undesirable to allow the rupee to rise?—It was the rate which exchange had reached before the busy season commenced.

705. (*Sir Purshotamdas Thakurdas.*) I should like to ask one question about paragraph 4 of Mr. McWatters' historical memorandum. There Mr. McWatters says "A new system usually described as the gold exchange standard was then established". I wonder if Mr. McWatters will agree with me that the gold exchange standard was evolved by a policy of drifting away from the recommendations of the Fowler Committee. They recommended a gold standard. The gold exchange standard was not part of their recommendations; it was evolved by the Executive here?—I admit it was evolved. It was not in its final form what the Fowler Committee recommended. In fact Government adopted practically Mr. Lindsay's recommendations, which the Fowler Committee pronounced against.

706. (*Chairman.*) A feature of recent currency history has been, has it not, the introduction of a new mechanism for remittances?—Yes.

707. That is by the purchase of sterling in India instead of by the sale of council drafts in London?—Yes.

708. Might one say that this is the adoption of a more ordinary and commercial method instead of a more extraordinary and official method?—I am not sure that I should go quite so far as that. It is still an official method in so far as Government operates it direct. I should not regard it as a commercial method until the whole mechanism is taken over by the Imperial Bank. It was originally intended to take the place of the sale of "intermediates," so as to regulate the market in between council sales rather more effectively; and, more particularly, when exchange became more definitely fixed, it was found convenient to adopt this method more and more under the particular circumstances of the last year.

709. Has it been found to work equally satisfactorily?—I think so. There have been complaints. The principal complaint of the commercial community is the absence of sufficiently early information as to Government's operations. That matter will probably be brought before the Commission by the Bombay Chamber of Commerce, which has been taking interest in it. Apart from that, I do not think any serious complaints have reached Government.

710. Of course, the new method of the purchase of sterling is a method which is suitable if business were conducted by a bank; the method by the sale of council drafts is less suitable if the business were conducted by a bank?—Yes.

711. One final question on the historical aspects of the currency. What has been the effect, if any, in your opinion, of keeping the nominal 2-shilling gold rate on the statute book?—I think the answer is, none. The only instance in which I can recall any difficulty having arisen was in connection with Australia. At one time the Australian Government applied their dumping legislation against certain Indian products, and the ground alleged by them was that India had a "depreciated exchange" because exchange was much lower than the 2-shilling rate; but when the true history was pointed out they at once withdrew their order. Apart from that, the actual rate remaining on the statute book, although obviously undesirable, has not caused any material injury.

712. Would it have been the case, do you think, that more gold would have gone into actual circulation as currency if it had not been for this provision?—I do not see that. Some statutory rate has to remain on the statute book, and unless one is in the position to introduce a new rate, I do not think gold could go into currency.

713. Your answer is that if gold has been kept out of the currency it has been by the fluctuations of the exchange rate?—It has been by the absence of any effective rate.

714. And not so much by the mere existence of the 2-shilling gold rate?—It has been by the existence of a rate which was completly inoperative, a rate which offered 10 rupees for the sovereign when the value of the sovereign was very much higher. Unless the rate bears some relation to the reality there would be no possibility of sovereigns coming in.

715. (*Sir Purshotamdas Thakurdas.*) You said just now that the 2-shilling rate was ineffective. Had it any other adverse effect except the one regarding Australia? Large quantities of gold have been imported into India during the last two years. If you had, say, 1s. 6d. on the statute book, people could tender gold at Rs. 13 and odd instead of Rs. 10. To that extent it has prevented gold being tendered to the Currency Office if people who held gold wanted to realise it?—That, certainly, was the position up to a certain point.

716. Do you know that last season in Bombay 7 per cent. was paid by importers of gold? The banks charged bank rate against gold. And is not 7 per cent. a high rate at which to pay interest on gold?—Yes, certainly.

717. If, therefore, an operative rate was on the statute book, it is possible that gold would have come into the Currency Office?—I entirely agree that the sooner the 2-shilling rate can be removed the better.

718. (*Sir Reginald Mant.*) You said there had been complaints regarding the purchase of sterling on the score of absence of publicity. Can you tell us what degree of publicity there was?—The purchases are published monthly after they have taken place. The Bombay Chamber of Commerce pressed, I think, for immediate information of daily purchases made by Government, and in the alterantive they would perhaps have agreed to weekly returns of purchases made. Their complaint was that they had to pick up what knowledge they could get by going round to various brokers.

719. How were the purchases made?—Through the Imperial Bank. The Imperial Bank are given a buying limit and they make purchases through the Exchange Banks. They are given a limit, both of rate and of quantity.

720. They are given the minimum rate?—An actual rate which is fixed under instructions from the Controller of Currency.

721. It might be altered during the course of the day?—Frequently, yes.

722. Did you consider the possibility of introducing a tender system for these purchases of sterling?—I do not at the moment remember whether that was considered. I doubt whether in present conditions it is preferable to the system now in vogue.

723. You do not think it would have been preferable when you were purchasing large quantities of sterling at varying rates to invite tenders to obtain the best rates?—I think it would have been more complicated and could not be applied from hour to hour in the same way as the present system.

724. There are a number of markets?—Yes, the operations take place not only at Bombay and Calcutta, but at Karachi and Madras.

725. So you could not really work that system in this country?—I think it would be more difficult.

726. In fact, probably London would be the only market in which you could work it?—That may be so.

727. (*Sir Purshotamdas Thakurdas.*) You said that the deficit in 1921-22 was about 15 crores?—Over 20 crores.

728. Did this include any loss in exchange?—No; that is the revenue deficit.

729. Without the reverse councils?—Yes, that is quite separate. That is actual revenue deficit.

730. The loss in exchange is separate?—Such losses as have occurred in various ways through reverse councils or otherwise are quite separate.

731. They were not included?—No, they were not included.

732. (*Chairman.*) Now I proceed to your memorandum on stabilisation. The initial words of your memorandum are: "It may be accepted without question that there is a general desire, both on the part of the public and on the part of Government, that the exchange value of the rupee should be stabilised as early as practicable, and made, so far as possible, independent of Government control." Have you in mind principally the independence to be obtained by making the system of stablisation automatic, or rather by transferring the actual control of the system from Government to some other authority?—I was not referring to the latter point. What I was referring to was the inconvenience of the present system in which, without a stabilised exchange, Government is practically the only authority which can affect exchange by increasing or decreasing currency. The whole onus is thrown on the Government owing to the temporary difficulties of the present unstabilised system. I was not for the moment thinking of the question of the Imperial Bank.

733. You were referring to the removal of Government control by making the system automatic?—Yes.

734. Do you regard this public demand for an independent system as a conspicuous feature of public opinion in India at present?—Yes, I think so.

735. Now, continuing the general aspects of stabilisation, let me ask you a general question. In your opinion, is the present moment an opportune one for taking measures for the stabilisation of the rupee?—Yes. Of course, in a matter of this kind the opportunity of forming a judgment out here is naturally limited, because it depends on international factors of the greatest importance on which we have insufficient information here. But assuming that the most important factor which has occurred in the last year, namely, the return of the United Kingdom to the gold standard, is a permanent one, and also that other countries which have been able to go back to the gold standard can remain there, I think it clearly seems to be a favourable opportunity for India to follow suit by stabilising her exchange. It depends on a right judgment as regards the permanence of those factors and the likelihood of other disturbing factors not arising, such a factor, for instance, as financial crisis in France. We, here, are not really in a position to form a judgment as to how far world conditions are secure. But, so far as we can form a judgment, I should answer in the affirmative.

736. You say towards the end of your first paragraph: "The fixation of the rupee exchange in terms of gold necessarily means that world changes in the value of gold—and in particular the monetary policy in the United States of America . . ." What had you in mind in that reference?—What I had in mind was that once exchange is fixed, of the three factors which have to be considered—international prices, internal prices and exchange—one will be completely out of your control, namely, international prices; the intermediate link that is exchange will be fixed; therefore the remaining factor, internal prices, will be at the mercy of outside movements, and it will not be in your power to control the situation. Supposing that the monetary position in America were to lead to an increase in the value of gold, prices in India would be directly affected.

737. Assuming on the one hand that it is desirable that the rupee should be stabilised and on the other hand that it is undesirable to attempt to stabilise it while the situation is still liable to such disturbances as those which frustrated the recommendations of the Babington-Smith Committee, is there in your opinion, any event foreseeable for the determination for which it would be worth while to wait before fixing the rate of the rupee?—I cannot think of any such event.

738. (*Sir Reginald Mant.*) If you had reason to anticipate any considerable rise in gold prices, would you consider it advisable to stabilise the rupee at present? Would you contemplate with equanimity the possibility of a further rise or any considerable rise in internal prices in India?—If the contingency were really a dangerous or an imminent one, I should prefer to wait.

739. (*Professor Coyajee.*) I put to you one argument which has been often advanced at the present time,—that we have had a series of good harvests in India. By the law of probabilities the opposite state of affairs may come to pass soon. Therefore, should we not wait for a year or two before we stabilise the exchange?—I think I should answer that in the negative. I do not know how the law of probabilities applies to harvests, but we have gone beyond the normal period already and we might have to wait indefinitely.

740. (*Chairman.*) Now as to the rate. Assuming that the rupee is to be stabilised, what rate should be chosen? I want to ask you a question in particular as to the effect of various rates upon the Budget. In your memorandum at page 5 you say that if the rate were to be raised too 1s. 8d., that would be of benefit to the Budget?—Temporarily.

741. Were the rate to be reduced to 1s. 4d., I understand that that would be a temporary burden on the Budget?—Yes.

742. What is the total immediate additional burden which, in your opinion, would be cast upon the Budget by a reduction of the rate to 1s. 4d.? I have added it up according to your figures here. It appears to me that your figures give a total of 5 crores 88 lakhs?—Yes. That includes both the railway figures and the capital expenditure. That would not be the measure of the burden on the Revenue Budget. The measure of that burden would be 316 lakhs, unless it were then argued that the railway contribution to the general Budget was too high; the Railway might in that case want re-consideration of the separation terms which were recently agreed to. But, supposing that does not take place, the actual loss to the revenue would be 316 lakhs and the remaining loss would be capital loss distributed between the railway and the general Budget. These figures, I should also mention, do not include the figures of the Provincial Governments which are relatively small. The average sterling expenditure of the Provincial Governments on capital account may be taken at approximately £500,000 and the revenue expenditure at 2 millions. The extra burden in the case of the Provincial Governments would be 8 lakhs in respect of capital and 33 lakhs in respect of revenue. The total loss is round about 6 crores, which I think is the figure given in one of the memoranda supplied by the India Office.

743. You contemplate that the effect on the Railway Budget would be such as to require an increase in the rate or some other alternative; so there would be a burden on the public though not in the form of increased taxation?—I think it quite possible that the burden might be in the form of preventing a reduction in fares of which there is a possibility in the not distant future.

744. Finally on the question of stabilisation, would you tell us generaly what are the reasons for the opinion expressed in the final paragraph of your memorandum in favour of accepting the present position of 1s. 6d. to which you attach special importance?—I regard the question purely as a matter of

adjustment, that is to say, which rate will cause the least disturbance. I think it is a question of choosing the lesser evil, if I may say so. I am fairly confident, although it is very difficult to prove, that the adjustments necessary at the present rate will be less than at a rate either above or below it; and among the adjustments I include the adjustment of the Government's Budget. That Budget has been balanced on the assumption of a 1s. 6d. rate. That adjustment has already taken place at 1s. 6d. and a re-adjustment of the Government finances would be one of the big readjustments required by an alteration of the rate either above or below.

745. I understand that, in view of your special responsibilities, your obligation is to look at the matter, primarily at any rate, from the point of view of the national finance?—If it could be perfectly established that an alteration in the rate, higher or lower, would really confer great and lasting benefits on the country, the position of the Government finances would naturally be a subordinate consideration, but personally I do not believe that merely by altering the external level of your country's currency you can effect any permanent improvement in its material wealth. If that could be proved, I think it would weigh very heavily against any argument based merely upon Government finances.

746. Then, as I understand, the general effect of your answer is this, that to adopt any other rate than that which at present rules would entail disturbances, in the first place to the Budget, and in the second place to trade and industry (including agriculture) which would have a harmful effect, and it is only by accepting the position as it exists that you can avoid such disturbances?—I think the disturbances will be less if we accept the present rate. It is, I think, a choice of evils. The adjustments are probably not quite complete even at the present rate, but there would be less further readjustment with the present rate than with any other.

747. Let me ask a question which I should logically have asked at some other stage, and that is whether in your opinion Indian prices have adjusted themselves to the present 18 penny rate?—So far as one can judge from recent figures, the downward adjustment has gone some distance. Comparing Indian with sterling prices, and allowing for the great increase in the Indian customs tariff since the war, I think there is a general indication that prices have adjusted themselves although I never like to press an argument from index numbers too far. The statistics of prices are, I am afraid, in this country somewhat incomplete. The Statistical Department has been rather starved of funds. But in connection with prices there is a publication which I should like to bring to the notice of the Commission, that is, the figures of wholesale and retail prices which are published every fortnight in the Gazette for nearly every district in India. This publication gives you the retail and wholesale prices of the principal food-grains in use by the people. I have not attempted to make any tabulation of the figures but if the Commission desired it, this could be done and some inferences might conceivably be drawn therefrom. The figures reflect very closely the seasonal position; for instance, most of the food-grains which are grown in the autumn are now standing a good deal higher than a year ago, which is due to the comparative failure of the late rains in August and September as compared with last year. From this I think some indication of the changes in the cost of living as affecting the ordinary poor man could be obtained. There are also statistics which have been prepared by the Bombay Labour Office which give some indications as to the movements in agricultural wages. They seem to prove that although prices have fallen a good deal from their highest point the condition of the agricultural labourer has been steadily going up, and even the general fall in prices this year has not prevented a further small rise in the wages of the agricultural labourer in the Bombay Presidency. What I was trying to emphasize was that there are so many counteracting factors which affect the position—*e.g.*, the state of the monsoon in a particular year—that it is very hard to draw any general conclusion which will be universally applicable to the whole of India as to whether prices have moved in a particular direction or not. That is why I find it very difficult to give any definite answer to the general question, how far they have really adjusted themselves.

748. Taking the Calcutta index number for what it is worth, that would clearly indicate that prices were adjusting themselves. Can you base any conclusion upon these figures as to whether the process is completed or whether it is still in progress?—The figures would almost indicate that the process is complete but it is I think dangerous to press index numbers so far as to argue within a small percentage and an error of even 5 per cent. would affect one's conclusion considerably.

749. You suggest that we should consult the Government of India's return of fortnightly prices in various districts: can you suggest any other source of information which would throw light upon the question of the adjustment of Indian prices besides the index numbers to which you refer?—I think not, apart from the figures prepared by the Bombay Labour Office which are the most up-to-date in India. They have "cost of living" figures and they also have separate inquiries regarding the condition of the agricultural population. This is a book which originated in inquiries made by Mr. Findlay-Shirras and the figures are kept up-to-date.

750. The Labour Gazette, published monthly by the Government of Bombay, is one of the publications to which you refer. As regards the cost of living index, there is another special publication dealing with agricultural labour in the Presidency?—There is another publication dealing with wages in the mill industry.

751. (*Sir Reginald Mant.*) You said that the Government of India's Budget had been adjusted already to a 1s. 6d. rupee: that adjustment has been affected by a considerable increase in taxation, has it not?—Yes, certainly, a very large increase in taxation.

752. You think that taxation is undesirably high? —I do.

753. The adjustment has not been completely effected, and the Government of India have not fully discharged their obligations to the provinces?—I agree. There are still 733 lakhs of provincial contributions which have to be wiped out. The excise duty on cotton has also been definitely accepted as an obligation, so that the adjustment is Rs. 40 to £3.

754. With regard to the 1s. 6d. rate, do you consider that a convenient figure for purposes of conversion?—It is not a perfect figure; it is 13⅓ Rs. to the £. It is not however so inconvenient I think that this need weigh very much in the decision. It is Rs. 40 to £3.

755. It is not as convenient as 1s. 4d. or 1s. 8d.; if you want to change £1, you have to go down to pies? —Yes.

756. You cannot suggest any figure in that neighbourhood which would be an improvement in that respect?—There is nothing between 1s. 4d. and 1s. 8d. which is really any better.

757. Rs. 13 to the £, for instance?—I think it introduces other complications, *e.g.*, in the expression of the rupee in pence.

758. (*Sir Purshotamdas Thakurdas.*) It would appear from what you have said that the figure of 1s. 6d. was hit upon more by coincidence than by any sort of set purpose. It happened to be the rate ruling just before the busy season started and it happened to be ruling when the Finance Department made up their mind that they would stop any further rise in exchange. Then the argument that you urge in your memorandum regarding any change from it, upwards or downwards, would apply the same way to any rate at which the Government of India may

have stopped, say 1s. 5d. or 1s. 8d.?—I agree, except that I do not think that the Government of India would ever have contemplated going up to 1s. 8d., because the monetary position in the country would have been very much upset and also the industrial position. I think one can rule that out as a practical impossibility.

759. Take 1s. 7d. or 1s. 5d.: and suppose the Government of India had decided that exchange should be stopped from going any further: the same set of arguments that you put forward in your memorandum against any change from the present level could have been urged and would have been urged by you?—I certainly agree that the figure might have been 1s. 5d. Then you would have had a different budgetary position; otherwise there would be very little alteration.

760. Then was this figure adopted from the point of view of your Budget?—No.

761. Therefore the budget position did not enter into your consideration when the Government of India stopped at 1s. 6d. That did not form part of your aim?—We did not fix on 1s. 6d. definitely for purposes of the Budget. One was, of course, very glad to be able to get rid of 2½ crores of provincial contributions last year. But if exchange had been stopped at 1s. 5d. we should have done our best.

762. The Budget situation did not weigh with you at all, and, judging from what you have said in reply to the Chairman, the 1s. 6d. rate happened to have been a mere coincidence as being the rate which prevailed at the time and very largely an accident?—We were not considering the Budget in October.

763. Therefore, whatever the rate selected might have been, you would have to advance the same arguments against a change from that rate, whether it be 1s. 5d. or 1s. 7d.?—If exchange had been held for a prolonged period at 1s. 5d., I should certainly have argued that 1s. 5d. was the best rate.

764. If it had gone up to 1s. 7d., would the Government of India have moved in the matter of stabilisation? If the rate to-day were at 1s. 7d., for example?—I do not think the situation would have arisen; we should hardly have allowed exchange to rise to 1s. 7d.

765. With regard to what you say in paragraph 3 about increase in prices ,would the same be correct if prices went down six months or a year hence? If, for instance, they went down from the present level by 12 per cent.?—We are now 60 per cent. above the pre-war level.

766. Take cereals, pulses, and the articles which are consumed locally, including wheat. You are above the pre-war level, and my question is, in judging whether the cultivator can stand any artificial check from sharing the rise in other parts of the world in raw materials, did the Finance Department enter into any calculation as to what the increased cost to him was?—We have considered the question of agricultural cost. I was examining in that connection in the Bombay publication first referred to the increase in the wages of agricultural labour. But it is very hard to say whether this increase in cost is compensated for by any improvement in the actual work of the labourer. There is some evidence that the condition of the agricultural labourer has improved. How far he is doing better work it is very difficult to say, but in actual money wages he seems to be somewhat better off than before. The position of the agriculturist also would appear from this same publication to be on the whole better in the Bombay Presidency than it was some years ago.

767. As regards what the agriculturist gets for his raw produce, he has to pay something additional for labour and the balance is his increased margin?—I was referring particularly to paragraph 29 of the publication which contains the opinions of a number of experienced officers who examined the conditions, in the various districts, of the agriculturist and the agricultural labourer; there is also a great deal of information in the census reports.

768. You tell us in the last sub-paragraph of paragraph 3 why in your opinion any rise higher than 1s. 6d. would be undesirable; you also tell us why any decline would be undesirable. The difference between the two as it may strike one is that in one case while you say that a rise above 1s. 6d. would prejudice the cultivator, when you talk of the lower rate it is not the cultivator or the producer that you consider, but the Central Government?—I was considering the country in general. The producer would benefit temporarily, no doubt, from a fall to a lower rate, that is, some classes of producers. There are producers of different classes, those who work their own land, those who do not and who are unable to get the benefit of their whole produce, and you have got to consider a very large number of different interests before you can say how far a rise in prices or how far a fall in prices would injure them.

769. May we take the most numerous class of producer: what happens to him?—I do not know which is the most numerous class. Perhaps they are those who cultivate the land as tenant and have very little surplus to sell, but live on their own production. They would, I think, be practically unaffected.

770. (*Sir Alexander Murray.*) In your opinion the largest and most numerous class of producer is unaffected by exchange, whether it goes up or goes down?—Certainly in the long run, and even temporarily I think the majority would not get any very great benefit. They are all consumers. If they had any available surplus, they would have to buy something.

771. (*Sir Purshotamdas Thakurdas.*) Then the argument against the 1s. 8d. rate is not very strong? If the majority do not benefit by 1s. 4d., they would suffer by 1s. 8d.?—The movement to any different level does create disturbances. During that period there is a disturbance, but ultimately it does not make any difference to the class which lives on its own production whether 1s. 4d. or 1s. 8d. is adopted; there will be very little difference, practically negligible.

772. For all practical purposes, whatever the level of exchange, it would in your opinion make no difference?—With the qualification which I have made in the memorandum that the gap between the present rates and some other rates might be so large that the disturbances would be so great that they could not possibly be faced. The disturbances in the immediate period in making a big change from the present rate would be so great that such changes can be left out of account as not being within practical politics.

773. Regarding the gain to the Central Government, could you tell us what was the amount that the Central Government gained when in 1920 exchange was fixed at 2s., and why while it was 1s. 4d. actually in 1920 Sir Malcolm Hailey got it fixed at 2s.: can you tell us to what extent India gained by that change in the statutory ratio?—I think there is a misunderstanding here. The amount that you gain does not depend on the rate that you put in the Budget, but the rate that you realise. The rate realised was not 2s.

774. (*Chairman.*) What would the difference in the sterling expenditure have been if it had been a 1s. 4d. rate instead of the rate which was actually obtained in the year 1918-19?—There was an actual deficit in that year, of course.

775. But still you must have gained in your remittance owing to the exchange that was available being higher than 1s. 4d.?—Yes. The deficit was reduced by the difference in the cost of sterling expenditure. I will have a statement worked out to show the amount of the gain.

776. (*Sir Purshotamdas Thakurdas.*) Have you any figures with regard to the statement that you make in the last sub-paragraph but one of paragraph 4?—I made a calculation for the first five months of the present year from April onwards, and taking the

import duties alone the amount assessed *ad valorem* was 57 per cent. Taking the import and export duties together, it was 51; the rest were all specific.

777. Would you not by a lower exchange get a higher return on those assessed *ad valorem?*—Certainly, you would eventually, if prices rose and the volume was not decreased.

778. What would be the amount roughly in rupees?—I should have to work it out. A statement could be prepared showing the actual money difference between 1s. 4d. and 1s. 6d. of the customs duties on an *ad valorem* basis, assuming that the amount of imports is not decreased and that prices rise by the full difference.

779. In the second sub-paragraph to paragraph 5 you refer to bad monsoon and exchange; would it be a fair inference to make from what you say in the latter part of that paragraph, that the lower the rate of exchange, the safer would be the calculations for the Government of India's Budget in the normal cycle of years in India? Take a ten-year period?—Yes, I was dealing there with the adequacy of Government's resources to meet a financial crisis, and certainly the lower the exchange, the less the drain would be, to some extent.

780. Therefore for purposes of the Central Government's Budget a higher exchange may cause an undue strain to be put on the resources of the Government of India?—The real risk of a breakdown is, I think, remote so long as your resources are sufficient; but there does arrive a point when, if exchange is fixed very high, the effort to establish it may involve a risk to your sterling resources. I have prepared figures elsewhere dealing with the question of the actual drain. But I agree generally that the higher the rate which you attempt to establish the greater the possible drain upon your sterling reserves.

781. You say in the last paragraph of your memorandum—"Finally, it may be said that in view of the change in the price level since 1914 . . ." etc. This practically gives the impression that you think the ratio of one country could be changed should it suit either the Government or any special cases that may arise. Would that be a correct construction?—No, I think it is hardly a correct inference. What I meant was that ever since 1914 there have been disturbances quite outside Government's control, which have affected debtor and creditor, and creditor and debtor, far greater than anything which can be caused now by the fixation of exchange. The price level is the main factor that has altered and there have been price levels in between very much higher than the level now; there has been a constant maladjustment and this occurs even in normal times: injustice is constantly being done to some one or another through variations in the price level; but the maladjustment in the period since 1914 is so great that there is no sanctity, in my view, in one rate rather than another.

782. The maladjustment you refer to has been all over the world?—Yes.

783. And if there has been any maladjustment in India that is because world conditions prevailed and nobody could possibly have stopped it: has any other country in the world changed its ratio since the war?—Many have. The majority who have gone back to gold have tried to go back to their pre-war ratio; some, such as Germany, have not; I am aware of several that have adopted different ratios.

784. In one direction you mean? Some have changed it in the other direction? Those of course whose currency system broke down could not help doing so; they had to do it; but I do not know of any country which had a sound system of finance behind it which even thought of changing its ratio as the Government of India propose to do: am I correct in that? Is there any information that you could give me which might make me feel that I am incorrect?—I am not aware of any country which has attempted to stabilise at a higher rate; many have stabilised at a lower.

785. (*Chairman.*) As regards the effect of a change of rates of exchange on the cultivator, I understand you to argue that if as a result of the change of exchange rate the cultivator gets more for what he sells he also pays more for what he buys?—Yes.

786. If he gets less, conversely, he also pays less?—Yes.

787. Therefore after the period of adjustment, whatever effects it may have ultimately, you can effect no substantial change in the position of the cultivator by a change in the rates of exchange?—Yes.

788. That is perhaps a fair summary of your argument?—Yes.

789. (*Sir Henry Strakosch.*) With regard to the question of stabilising; I believe it was in October of last year, with the rupee at 1s. 6d., you were guided you said mainly by the fact that if you had not fixed upon a definite rate the risks were that the rate would have gone up at that time materially higher than what it was and that that would have caused a material disturbance. May I take it then that you were also guided by the fact that at 1s. 6d. a fairly large measure of adjustment had taken place between internal and external prices and that if you had allowed the rate to go up, a new adjustment would have had to take place with a corresponding disturbance of economic conditions?—Yes, I think that is correct.

790. You wished to avoid widening the gap of adjustment?—Yes.

791. And would you agree that for all practical purposes nobody benefits as soon as the adjustment has taken place?—Broadly speaking, I think that is correct.

792. That is to say, that any benefit accruing to any particular section of the community is confined to the period while the adjustment is taking place?—Yes.

793. And when the adjustment has taken place you may expect, except for long term debts, like land tax for instance, no benefit accrues to anybody?—Yes.

794. One thing I was not clear about in your explanation, and it is this: you said the higher the point at which you finally fix the exchange, the greater would be the risk of a break-down or rather the more difficult would it be to maintain the rate at that high level: would you say that it is more difficult to maintain it at the higher level when once the adjustment has taken place?—I was not considering the period after final adjustment. I was thinking of the immediate position, on the supposition that we fixed exchange, say, at 1s. 8d. and a period of extreme weakness of exchange ensued. It would be easier for us probably to establish 1s. 6d., even if exchange weakness occurred than it would be to establish 1s. 8d. I was not considering the ultimate period after adjustment.

795. In other words, what you were afraid of is that an adjustment of prices at a level which is materially below or above the level at which exchange stood would be more difficult and therefore there would be a greater danger of failing to maintain the exchange value at that point?—Yes.

796. (*Chairman.*) In short, if prices are adjusted to the present level the adoption of another level involves a disturbance, and the further the difference between the present level and the other level adopted, the bigger the disturbance involved?—Yes.

797. But once the new level is reached and a fresh adjustment of prices arrived at to the new level, then of course the new rate is as easy to maintain as the old?—Yes.

798. (*Sir Henry Strakosch.*) You mention that little reliance can be placed on the indices which are being prepared in this country. Which authority

prepares these indices? Are there any private institutions who do this?—I am not aware of any private institutions; the Government indices are prepared by the Director General of Commercial Intelligence, and under him there is a Director of Statistics; they are under the Commerce Department. They prepare the Government of India statistics.

799. Do you see any great difficulties in preparing a scientific index upon which as much reliance could be placed as upon indices prepared in other countries?—I think it is more difficult in this country owing to its size and owing to the enormous variety of conditions in the different provinces. I think that our index could be improved no doubt, but I think that the conditions are more difficult here than elsewhere.

800. But you see no insuperable difficulties in preparing an index?—I think an index number for the whole of India would be misleading; I think you really require index-numbers for particular areas; the conditions differ so enormously in different parts of the country.

801. (*Chairman*.) I shall now turn from the question of stabilisation to the question of the currency system for India. I may say that the memorandum is so full and clear that it will be unnecessary to deal with the matter from the beginning; the memoranda are based upon a comparison of three possible standards, the sterling exchange standard, the gold exchange standard and the gold standard. I would, if I may, just ask you some general questions which will give you an opportunity of supplementing the memoranda in any manner which you think is desirable, and in particular to show the Commission upon what considerations you lay particular emphasis. There is one proposal which is common to all three possible systems, and that is the proposal for the transfer of the control of the note issue to the Imperial Bank of India, coupled with a proposal for amalgamation of the reserves. Would you then tell us in general what your view is as to the desirability or the reverse of the amalgamation of the paper currency reserve and the gold standard reserve?—I think that in theory at any rate it is desirable to have a single reserve. I think it depends entirely on what system you eventually adopt. The system of gold exchange standard which is outlined in our memorandum contemplated the continuance of a separate reserve, only under a different name—a reserve for redemption of rupees. It really was a continuance of the gold standard reserve, fulfilling, not quite all the functions of the existing gold standard reserve, but more or less in substitution for it. That scheme therefore kept a separate reserve apart from the paper currency reserve. In the memorandum which Sir Basil Blackett has submitted separately I see that he contemplates amalgamation of the reserves in all cases, but that is not a feature of the first memorandum in which I to some extent collaborated. If the pre-war system were retained I think that the gold standard reserve might be very well retained as at present. The point to which I attach importance is more the amalgamation of the currency and banking reserves of the country.

802. That is the second question I come to. In your view is it possible to make any scientific definition of the difference between the purposes for which the gold standard reserve and the paper currency reserve exist?—I think it is difficult. I do not think that any real definition has been attempted so far, but the gold standard reserve is mainly to provide for occasions when there is weakness in exchange, and it is used mainly for that purpose. Logically, however, I think the reserves ought to be one.

803. And the practical aspect is that if they both serve a double purpose, then by maintaining the difference between the two reserves, as I understand it, neither is so completely available for either of the purposes which it has to serve as if they were combined?—Yes.

804. In the memorandum, I think, of Mr. Denning, on the gold standard, emphasis is laid upon the difficulty of combining the reserves owing to the difficulty of fixing any definite relation between the gold standard reserve and the liabilities which it exists to support. On the other hand one observes that in Sir Basil Blackett's memorandum on the Indian Currency System these difficulties are at any rate not looked upon as insuperable. What is your view upon that?—The difficulty is, first of all, that of obtaining anything like a correct figure for the amount of rupees outstanding, and secondly, the variation in the price of silver which makes the contingent liability vary from time to time. The position taken by Sir Basil Blackett, as I understand, is that although that is so you can safely take an outside figure which will be good enough and be quite on the safe side. The question of the amount of rupees outstanding is a very important one which arises in another connection also, in connection with the possible amount of rupees which might be returned in the event of your undertaking the obligation to give gold.

805. That is a question which I shall ask specially later. But as regards the present question?—I think that if you are prepared to accept an outside figure, the difficulties are not insuperable. I feel fairly confident myself that 350 crores is an outside figure, including Government's holding in the reserve.

806. Now, to complete the picture, let me ask you a general question as to what is your view as to the desirability or otherwise of the transfer of control and management of the note issue to the Imperial Bank?—I am strongly in favour of the transfer. The reasons are practically those given on the first page of this memorandum. The one to which I attach the most importance is that of both reserves, the banking and currency reserves, being under the control of a single authority. It is not merely an academic point; one could in practice give instances where difficulties either have arisen or have very nearly arisen owing to the existence of three distinct authorities controlling the reserves.

807. I think it would be of very great interest to the Commission if you could tell us any practical instance of the sort to which you have just referred?—I will give one. Take this last October. There was no difference of opinion between the Government of India and the Secretary of State as to the policy to be adopted in increasing currency when necessary during the busy season, but there might have been. I merely say that that is a particular difficulty that might have occurred, but did not. But at the end of October our Government balance in the Imperial Bank was just about 7 crores, which was fairly low; in the first week of every month there are always very heavy withdrawals for payment on Government account, for salaries to their officials and so on. The amount of the drop may be as much as three crores in the first week of any month. The practical point for decision which arose was how far the Government should put in extra currency during that week to increase their balance, and how far they should let the balance go down. The Bank's point of view, which was accepted by Government as right and correct, was that they should not put in more than one crore. The position of the bank was that if Government had done more they would have given what you might call an artificial appearance of easiness to the money market; they were able themselves to foresee what their coming liabilities were, how soon the cotton crop was likely to come on, and how far the business community would or would not be misled by any artificial appearance of ease at that time, which would be purely transitory. For that reason they advised us accordingly, and we accepted that advice, and instead of putting in 2 or 3 crores as we originally contemplated, we put in one crore. I am giving this instance, not because any difference of opinion arose, but because it could very easily

have arisen if we had rejected that view and put in more currency; we should have had a direct difference of opinion with the bank which would have affected their policy as regards their bank rate. That is an actual instance in which no actual conflict of opinion arose, but very easily might; and the exact opposite is very likely to occur in the busy season when the bank may want us to increase currency faster than the Government think desirable. The Bank was to watch the money market and the bank rate, and they have to carry us with them and differences of opinion may arise in practice.

808. And the responsibility of being able to affect such a situation is a responsibility of which you would be glad to see the Government of India rid itself?—Certainly. That is the first reason why a change is advocated, namely, the avoidance of friction between the different authorities. The second is that I think there is a possibility of the Imperial Bank, if it were in charge of both the currency and banking reserves, being able to reduce, to some extent at any rate, the fluctuations in the bank rate between the busy and slack seasons of the year. That certainly was the opinion of Mr. Keynes, and he put that forward in his memorandum regarding a State Bank. We have tried to work it out in the Appendix to this memorandum to show how the rates could be kept under control if both reserves were under one management.

809. That would be the result of the consolidation of the currency and banking reserves of the country, thus rendering the total value of the reserves more readily usable?—Yes.

810. Expansible and contractible for the purpose of the country?—Yes; those, I think, are really the two main factors. There are others. It has been argued, again by Mr. Keynes, and accepted by the Government of India in 1900, that a bank in charge of the note-issue would have greater facilities for developing and making popular the circulation of currency notes. They would be able to regulate the facilities for encashment and so on more quickly and more easily than when they have to make reference to Government. On the whole, I think there is probably something in that. They would be able probably to push the note-issue rather more than we are able to do. Another point which would be very much easier would be the arrangements for seasonal currency. At present, it is more or less an extraneous system; but if the reserves were amalgamated it might be made part of the ordinary statutory arrangements governing the currency reserve.

811. That is not quite clear to me?—In the proposals we have put forward for the bank taking over the reserve, it is contemplated that in certain circumstances they can increase the investment portion of the reserve on payment of a tax to Government. That would practically take the place of the present system by which we allow the bank to borrow from currency against bills of exchange. It would form part of the arrangements of currency instead of a separate arrangement grafted on it.

812. The present system is to make use of the unused margin of the fiduciary issue and instead of that you would have a more characteristically banking system by which the bank would have that work?—It is practically the same system as is adopted, I understand, in a good many other central banks, that they can reduce their cash percentage below the minimum ordinarily fixed, by payment of a special tax to Government.

813. So that instead of continuing a rather crude arrangement of a maximum fiduciary issue of which a margin is still unemployed, you would have the more scientific arrangement of an extensible margin, an elastic margin, of fiduciary issue, which can be expanded or contracted according to the needs of the season?—Yes. And finally there is one further argument perhaps; that is, the arrangements for Government remittances to London could be simplified if the bank were given control of the currency as well as the banking reserves. We contemplate a system, which should be exceeding simple, in which you practically impose the responsibility upon the bank, subject to due notice, of providing funds in London.

814. Is it relevant in this connection to refer to the circumstance that the Government of India has already, under the existing arrangements, adopted a system of remittance which would be more normal in banking practice than the old system of council drafts?—Yes; I think it is, but it is less simple than the system we would like to see.

815. The system which you would like to see differs only from the present system in that the remittance will be carried on by the Imperial Bank and not by the Government?—Yes; at present we give limits both of amounts and of rates, and the bank simply acts as our agent; in the other system you would be calling upon the bank, so long as you give them due notice, and they would not remit at any particular moment at all; they would make their own arrangements throughout.

816. It would be an essential part of the exchange system that there should be limits?—Some arrangements would have to be made as to the rates to be applied. We were contemplating taking something like a monthly average rate based on actuals; it would be near enough in the long run. There is a monthly figure which we use now for certain purposes which is fixed in consultation with the India Office.

817. (*Sir Henry Strakosch.*) I wish to ask whether you agree with Sir Basil in thinking that the proposal which he puts forward in his latest memorandum on Indian Currency with regard to providing a reserve of one rupee in respect of every four rupees issued to the public of new currency is adequate?—I think the figures taken by Sir Basil are adequate.

818. And do you regard the system as one that could easily be worked and preferable to the one proposed by Mr. Denning which is much more complicated?—I have really scarcely formed a judgment as between the two systems; I have only seen Sir Basil's system quite recently; it has certainly attractive features.

819. (*Sir Reginald Mant.*) You said that you preferred not to amalgamate the two reserves?—That perhaps is going rather too far. I think, if we were retaining our present system without change, you could justify retaining them separately.

820. If we were to retain practically the sterling exchange system?—Yes.

821. If you had the gold standard reserve kept as a separate reserve, would you not introduce some arrangements for contracting the currency when you operated against it? At present I understand that when you draw on the gold standard reserve you do not contract the currency and it fails really to achieve its main object?—That is so. That is one of the reasons why the operations in 1920 were ineffective.

822. Could you devise machinery for removing that difficulty?—It could be done, I suppose.

823. Do you not think it would be necessary to do that?—I think it would be desirable if the present system were retained.

824. (*Chairman.*) Before proceeding to ask you some general questions about the various alternatives that are developed in your memorandum, I think it is natural to call your attention to the defects in the present currency system in India as specified in one or two of the memoranda submitted to us, and to ask you your opinion as to the remedying of those defects. I refer in particular to the memorandum of Mr. Denning on a gold standard for India in paragraph 2, where those defects are analysed. The first reference is to the defect in the system of the high silver bullion value of the rupee as affected by possible changes in the price of silver. I should like to ask you a question in this form—whether you consider that the proposals for the limiting of the position of the rupee as legal tender

would themselves remedy completely that defect in the existing system?—The answer is, "No." They would certainly not remedy it completely, but they would, I think, make the problem more manageable. In the event of a situation arising in which the bullion value of the rupee rose above its exchange value, the position would be that there would be a more limited number of rupees circulating which would begin to be melted down. It would be easier for Government in any circumstances short of a world crisis to meet the demand for currency by re-issue, for instance, of the one-rupee note as one of the steps, or by issuing a coin of reduced metallic value, possibly a two-rupee coin. Our proposals would certainly not eliminate the danger, but they would make the danger somewhat easier to be dealt with.

825. The argument, I take it, is that it is common ground at the present time that the reduction of the silver value of the rupee or the substitution of any other form of more economic coinage, nickel or silver, for the rupee would be attended by insuperable difficulties?—Yes, I think so.

826. That is because of the dependence of the population under present conditions on the silver rupee as the familiar basis of their confidence in currency values?—Yes.

827. Then I take it the argument continues that that objection would disappear after the population had been given an opportunity of substituting some other form of more suitable currency for the rupee? —Yes. It is, in short, what Sir William Meyer said to the Babington-Smith Committee, more or less, in the same connection. He said: "If you are going to reduce the rupee to a mere token coin, then you must have some other suitable medium. You must have your sovereign." That is, you must give some other currency of intrinsic value before you can limit the legal tender position of the rupee.

828. Anticipating somewhat, we have been told by Sir Basil Blackett that he allows for a continuous circulation of some 150 crores of rupees for the purposes of small coinage?—Yes.

829. Quite apart from theoretical considerations, if one is to consider the social reactions on a populace uneducated in currency matters, do you think that, even under the conditions to which you have referred which would prevail after the establishment of the gold standard, there would be any likelihood of any grave social disturbances as the result of an attempt to substitute a currency of less intrinsic worth for the rupee in order to meet the change in the silver market?—I think that there would be very much less likelihood of serious social disturbance, provided that another coin of intrinsic value had been made available. I think that a certain amount of social disturbance might occur even in these circumstances, but I think the problem would be a good deal less acute than the problem which had to be faced during the war.

830. You perceive, no doubt, that the difficulty which suggests itself to me is that for all the purposes for which this 150 crores is used, the fact is shown that the other coinage is not readily available because it is too large in dimensions?—Yes, that is so; although I think that the other coin would be taken in a great many cases if it were available and if the rupee were not available. There is a good deal of information on this point in the 1913-14 report by Sir Henry Howard when Controller of the Currency. He went in great detail into the question of the popularity of the sovereign, and there is one statement of his which bears on this point. He says: "On the whole, it may perhaps be fairly concluded from this evidence that the popularity of the sovereign as a medium of ordinary currency depends largely on the extent to which it is made available to the cultivator by the various firms and middlemen who buy up his produce, and that where it is so available in large quantities it is gladly accepted and used in everyday transactions."

831. Are there any supplementary questions on this question of the relation between the rupee and the silver market as a defect in the present system? Then, Mr. McWatters, the second defect in the present system, as set out in this analysis, is that under the present system the rupee is linked on to sterling and not on to gold. In view of the recent return of sterling to parity with gold in substance, what emphasis would you lay upon that as a consideration in devising an improved system?—It depends, Sir, I think, on the confidence one may have in sterling remaining in parity with gold. If one had complete confidence that it would do so, I think the emphasis need not be excessive.

832. Would you be prepared to express any opinion as to how largely this consideration bulks in Indian public opinion?—It is difficult to say. I think that the Indian public opinion would probably prefer a gold standard or a gold exchange standard rather than a sterling exchange standard. But it is very hard to speak for Indian public opinion generally. I think the Indian public opinion that is most widely expressed would certainly prefer it.

833. Is it possible to express any opinion as to the relative importance which public opinion here would attach to the elimination of this defect as compared with the differences of expense of the gold exchange standard and the sterling exchange standard?—I am afraid, sir, I could not express any opinion.

834. That involves no doubt a nicety of consideration which is perhaps beyond the possibility of the formation of public opinion under present conditions?—I am not quite certain what the relative difference in cost would be. If it is a large figure, it would make a considerable difference. But I should say that the preference for a standard based on gold is probably very decided in the minds of most Indians who have given much attention to the question.

835. The difference in cost consists in the difference in the expense of keeping a larger amount of gold under a gold exchange standard than it would be necessary to keep under a sterling exchange standard?—I understand that under Sir Basil's scheme you need keep no gold in the reserve under a sterling exchange standard.

836. Would you feel it possible to say that under a sterling exchange standard it would be possible to keep no reserve of gold at all?—Personally, I feel doubtful. I think that there is some difference between gold and sterling securities when it comes to their use.

837. What influence would it have upon your mind in that connection to consider the advisability of keeping a reserve of gold in order to avoid what I may call the full shock of sales in the security market, when you require to make use of your reserve under a sterling exchange standard?—I think a reserve of gold—a certain amount of gold—would be useful for that purpose.

838. So that, under any standard, practical considerations appear to point to the maintenance of a certain part of the reserve in gold?—I think so.

839. Now I will pass to the third defect in this analysis of the defects of the present system; that is the present system is deficient in its provisions for the automatic stabilisation of the rupee and the contraction of the currency. I understand that these defects, according to the opinion expressed in your memoranda, are equally remediable under any of the three alternative systems proposed?—Yes.

840. Just to make a matter perfectly clear which has been referred to already in your examination in reply to a question by Sir Reginald Mant, what arrangements would you propose for providing for an automatic contraction of the currency on a sterling exchange standard?—I think I said in answer to Sir Reginald Mant that I had not thought out any definite system, but that some arrangements were necessary if the system was to be logically complete. The system should impose some obligation on Government to contract currency rather than, as now, leaving it merely a

matter of practice; under the present system the action of Government has been, or could be, arbitrary.

841. Those arrangements would no doubt differ according to whether the note issue was controlled by the Government or by the Imperial Bank?—Yes.

842. Were the reserves amalgamated and the currency controlled by the Imperial Bank I understand that no special provisions would be necessary?—No.

843. On the other hand, if the reserves were maintained in a separate form and the control, or the partial control, of the gold standard reserve were retained in the hands of the Government, some new and special relation between the gold standard reserve and the currency in circulation would be required?—Yes.

844. Would it be easy to devise such a method in such a case?—The arrangements outlined for the reserve for the redemption of rupees are referred to in paragraphs 10 (sub-paragraph 5) and 9 of the Memorandum on Transfer.

845. The arrangements for meeting that contingency are suggested in paragraphs 9 and 10 (sub-paragraph 5) of Mr. Denning's Memorandum on Transfer?—The reserve is really described in paragraph 8—the use of it, the application of it. It is a somewhat complicated method of dealing with this difficulty, but short of the amalgamation of the reserve it suggested itself to us as one of the ways in which it might be dealt with.

846. (*Chairman.*) I am about to pass from this heading to the next subject. Are there any supplementary questions that members would like to ask upon these general questions?

847. (*Sir Henry Strakosch.*) I should just like to ask Mr. McWatters a question with reference to clause 2, sub-section (D); there occurs the sentence "but in so far as the sterling value of the reverse councils sold was obtained by drawing on the gold standard reserve, the amount of the currency in circulation was not affected." Would you please explain why the currency in circulation is not affected by the sale of reverse councils?—The payment for the reverse councils may be made by *borrowing* from the gold standard reserve. There would then be no reduction in the currency. The sentence quoted has actually been altered in the later draft so as to bring out the point more clearly.

848. But if no borrowing had taken place the currency would have been affected. If sterling securities from the gold standard reserve had been sold in India for rupees that would mean a contraction of the circulation?—Yes, if it had not been for borrowing from the gold standard reserve that would have been so. But the system of borrowing is resorted to when there would be practical difficulties in contraction, with the definite object of so arranging that there should be no contraction of the currency.

849. May I revert to a question I had intended to ask before? Would Mr. McWatters consider it essential in a gold exchange system of currency that gold should actually be held, remembering that the reserves should be held in currencies which are convertible into gold. To give an example, if a gold exchange standard were established and a part of the reserves were, for instance, held in the United States dollars, there would, of course, be no difficulty whatever in converting any balance standing to the credit of the reserve in New York into gold at any time. Or equally in Great Britain. Would you in these circumstances consider it nevertheless essential that there should be actual gold held in reserve, and, if so, for what purpose?—The only reason for holding gold is that it represents something that you might not be able to get by the use of your securities. In theory I do not think, provided you are satisfied that your securities are immediately transferable into gold, that there is any logical necessity for holding gold. But the question arises whether in practice the securities of any country could be realised in all circumstances as quickly and easily as gold. If one were satisfied on that point the answer is that gold is not logically required.

850. (*Prof. Coyajee.*) This practice of borrowing from the gold standard reserve when the balance of trade is unfavourable is an exceptional method. Generally the reverse councils are to be sold against the gold standard reserve and the price, the rupees obtained for the reverse councils are to be locked up. That is the idea of Lindsay and others?—That is so. It is in exceptional circumstances that it has been employed.

851. Generally, when the gold standard reserve is used, as it was intended originally, there would be a contraction of currency?—Yes.

852. (*Sir Reginald Mant.*) I would just like to follow up that point. You say there would be contraction of currency if the gold standard securities were sold for rupees in India. If those rupees are put back as part of the Government balance with the Imperial Bank, is there any practical contraction of currency? If you don't lock up the rupees in a separate chest, where does the contraction come in?—Yes, I admit that.

853. That is why there is not a contraction of currency—because the rupees are not really withdrawn. They go into the Government balance and become available for further credit. So really to make the contraction effective you would have to lock up the rupees?—Yes, I think that is so.

854. (*Chairman.*) Just to make my mind clear on that, to make the contraction effective you must adopt some regulation as to a relation between the reserve and the liabilities that reserve is supposed to support. If there is no such relation then there is no reason why the rupees received, as Sir Reginald Mant has pointed out, should not return into circulation through some other channel, and that is the intrinsic defect of the exchange standard as it has been constructed hitherto?

855. (*Mr. Preston.*) Mr. McWatters in 1907-8, at the time of the American crisis, when reverse councils were sold to the extent of about eight millions, the practice then was that when they were sold against the gold standard reserve the rupees received in return were credited to the Indian portion of the gold standard reserve?—That is so.

856. And that created the contraction which all along the gold standard reserve has been meant to fulfil?—Yes; the Indian portion of the reserve was subsequently abolished.

857. Yes, but that was always the method and the policy which it was understood would be carried out in connection with any reverse councils drawn on the gold standard reserve in England?—Yes.

858. (*Chairman.*) I now propose to pass away from the question of the exchange standard. Has any member of the Commission any supplementary questions to ask on the exchange standard? Underlying the memoranda which we have had for consideration Mr. McWatters, from yourself, and your colleagues one finds great emphasis placed upon the displacement of the rupee from the position of being a coin of unlimited legal tender. Will you tell us what, in your opinion, are the disadvantages of the privilege of unlimited legal tender as attached to the rupee, and conversely what advantages there are to be gained by limiting the rupee as legal tender?—The disadvantages, sir, are shown by the facts, I think, of history, which are evident from what happened in the war when the system broke down, when the bullion value of the rupee rose above its exchange value and exchange was made to follow upwards with it. That was the root cause of the breakdown of the Indian system, and, though that might or might not occur again easily, it is an inherent defect in the present system that it is liable to break down in circumstances of that kind.

It is not merely a theoretical but an actual defect. The second part of the question was, I think, dealt with in a previous answer. We hope, not to abolish certainly, but to reduce to a considerable extent the difficulty of dealing with a situation of that kind if it occurred in the future by being able to replace the rupees when they are limited legal tender more readily by other forms of currency should a crisis arise. I do not suggest for a moment that one can get rid of the difficulty altogether, but you can certainly reduce it and make it a more manageable proposition.

859. That completes the account given of the advantages and disadvantages referred to under the heading of the elimination of the uncertain factor of the silver market on the rupee. Are there any other substantial advantages which may be expected to result from limiting the position of the rupee as unlimited legal tender?—If one includes in that the establishment of a gold standard, some further considerations arise. What we were ultimately aiming at was a currency which would not have the rupee unlimited legal tender, and ultimately working up to a currency such as exists in England, if possible. If one could achieve that, I think there are other advantages one could mention.

860. Before we deal with that point let me ask you this question. Is it in your opinion possible to arrive at the limitation of the rupee as unlimited legal tender without the previous establishment of a gold standard?—Our view was that it was not possible. The rupee being used not merely as currency but as a store of value, it would be essential to make the change by giving in the interim a coin of intrinsic value—gold. It is only because of the peculiar nature of the Indian system, and because the transition could only be achieved in that way, that emphasis has been laid on introducing gold in the currency, which in itself is obviously uneconomical. It is merely because the Indian system has this peculiar difficulty that we thought it could not be achieved except through this stage. As was emphasised in the quotation I gave from Sir William Meyer's evidence before, it seems the only way to proceed in India. Historically, other countries, it is true, have made this step direct, but in India we have the peculiar problem of hoarding, and the fact that the rupee is used as a store of value. We felt that we had to give something of intrinsic value to replace these stores before anything could be done.

861. You have described as one of the features of recent currency history in India the very great increase in the circulation of notes employed, and a large increase in their use. That, I think, is a prominent feature of recent history, is it not?—Yes.

862. Would it be impossible to contemplate such a growth in the habits of the people as regards the use of notes as would lead to a dethronement, if I may use the word, of the rupee in practice owing to a process of education such as would make it ultimately possible to effect this limiting of the user of the rupee as unlimited legal tender without any intervening stage of the acceptance of the liability to give gold against rupees?—I think it would take a very long time. I cannot envisage those conditions for many generations to come.

863. Would it be quite unpractical to go so far as to suggest that possibly the process is actually taking place, as evidenced by the increase in the use of notes?—I think the process is taking place to some extent. The quotation I mentioned from Sir Henry Howard's report really bears on that point. I think that the ordinary Indian cultivator is very willing to take practically any form of currency that is given to him. To illustrate my point, might I mention something about the financing of the jute crop in Calcutta? The position there is that at the beginning of the jute season the Deputy Controller of Currency in Calcutta receives information from the Banks operating in the Eastern Bengal area and from the big firms who deal in jute stating the kind of currency they want. A few years ago they used to ask for notes, mostly Rs. 10 and Re. 1 notes. The cultivators in that area took quite willingly to the one-rupee note, and since the one-rupee note had been abolished they have been indenting very much more largely for notes of higher values and a much smaller proportion of silver than was represented by the old one-rupee notes. There is no difficulty in substituting for the old one-rupee currency notes of larger value. The expansion of the note circulation can thus be effected simply by giving currency in this form. The people are very willing, in some areas at any rate, to accept and respond to new forms of currency. And yet in this same report of Sir Henry Howard's of 1913-14 he stated that notes were not then taken at all readily for financing the jute crop. I am giving you now the history of 12 years afterwards to illustrate how rapidly the position has changed.

864. Before I leave that point, let me ask you a question which I should have asked before. In your opinion what would be the effect upon the acceptance of the note if it was an Imperial Bank of India note instead of a Government note?—I think it would be received without any distinction at all by the bulk of the people. I do not think any difficulty would arise. I believe that in 1900 the Government of India suggested the possibility of a double signature both by Government and an officer of the Bank; but in my opinion an Imperial Bank of India note would be accepted.

865. (*Sir Reginald Mant.*) One point I would just like to clear up in connection with the instance you gave us just now of ten-rupee notes taking the place of one-rupee notes. Was not that partly due to the fact that the one-rupee notes were done up in packets, and that it was one-rupee notes in this booklet form that to a great extent replaced notes of higher value?—The booklets did not really circulate in the sort of area I was speaking of. They were very largely used by the upper and middle classes in the towns. I myself used always to keep some. I now keep a few ten or five-rupee notes, and break into them when required. It is perfectly true that since the one-rupee notes have been abolished there has been increase in the use of notes of higher value by ordinary middle-class people quite apart from the financing of big crops like the jute crop.

866. But don't you think that the difference between ten-rupee notes and one-rupee notes and between ten-rupee notes and silver rupees was partly accounted for by the fact that when the one-rupee notes were used in place of the ten-rupee notes they tended to replace the ten-rupee notes?—I think the earlier history of the financing of the jute crop was that notes were extremely unpopular. The use of them was only gradually developed. When the one-rupee note was abolished, instead of sending up the equivalent amount of small coin, the firms and middlemen, as a matter of convenience, sent up a smaller amount of coin and the rest in larger notes. In no case has any difficulty been experienced.

867. Then you would answer my question in a really opposite sense: instead of the one-rupee note replacing the ten-rupee note, it led up to the extinction of the one-rupee note and increased the circulation of ten-rupee notes?—The circulation of ten-rupee notes has increased considerably since the one-rupee note was abolished.

868. (*Sir Henry Strakosch.*) You mentioned that the Indian system broke down because the bullion value of the rupee had risen above its normal value. That was the chief reason why the system broke down?—Yes.

869. Are you aware of any gold standard system which broke down for practically the same reason? Are you aware that in at least three of the British Dominions the currency broke down for the very same reason?—I think in one of my answers I carefully safeguarded myself by saying "except in a world crisis such as the war." I agree that in a crisis like that any system is likely to break down, and it is a question, on which however a different opinion was formed at the time, whether, if the

Indian currency had become inconvertible almost at once like those of other countries, we should not have escaped a good many of the later difficulties.

870. You agree, then, when we generally state that no standard, including the gold standard, is proof against an abnormal cataclysm such as the Great War?—I entirely agree.

871. I think that is a point which one cannot sufficiently emphasise, that even if India had had a full-fledged gold standard, with gold in circulation, notes being convertible into gold, the standard would have broken down during the war, just as it has broken down in South Africa, Australia, and New Zealand, where, I may perhaps add for the information of my colleagues, sovereigns, owing to the omission to suspend specie payments, could be demanded in exchange for notes, and these sovereigns, because their bullion value was higher than their face value, were speedily exported, and the country was left without any currency. Therefore, you have identical conditions in a full-fledged gold standard country practically as you had in India, and, therefore, if you introduce a full-fledged gold standard here, are you going to save the country in such circumstances from a breakdown of its currency?—No. I think that if India had had a gold standard, the currency would have become inconvertible almost at once, and it would in fact have saved a good deal of trouble and expense.

872. (*Prof. Coyajee.*) Might I submit to you one possible criticism of the idea of making the rupee limited legal tender? It might be argued that you are forcing the hands of the people and compelling them to take a gold currency. The general idea is that the people should be allowed to use gold or silver at their will, but as with, such an option the people would go on using rupees, the idea was adopted of making the rupee limited legal tender. Could that criticism be made?—I do not think it is a very serious criticism. I think we are constantly forcing people at all times. The ideal is to give them the currency they want, but the instance I have given from the jute crop shows that we do not; we give them what is most convenient, and it usually works.

873. (*Sir Alexander Murray.*) Regarding the financing of the jute crop, might I remind you that at the time you speak of the price of jute was comparatively low, Rs. 5, Rs. 6 or Rs. 7 per maund; and it is the case that at that time the rupee was a more suitable currency for financing crops. The ten-rupee note was not suitable. I remember when the one-rupee note was introduced it was said the one-rupee note would not be suitable. The one-rupee note was accepted very freely in Bengal. Is it the case that the very use of the one-rupee note led up to the greater acceptability of the ten-rupee note? Coming to this further fact the price of jute has doubled since then—instead of being Rs. 6 or Rs. 7, it has gone up to Rs. 14, Rs. 15, and even Rs. 25 a maund, it is only natural that people should be willing to take Rs. 10 notes where formerly they took one-rupee notes?—I quite agree: the higher value of jute would give a stimulus to the use of the ten-rupee note. Sir Henry Howard's comment was that the cultivators disliked taking them. That was in 1913. But obviously a much more highly priced crop would give opportunities for the use of these notes that a lower priced crop would not. Also I agree that the one-rupee note becoming acclimatised led to higher notes being taken later on.

874. (*Chairman.*) One further question before we come to the exchange standard. May I refer you to paragraph 7 of Mr. Denning's memorandum on the transfer of management to the Imperial Bank. The opening words of that paragraph are:—"A gold coin in circulation is not a necessary feature of a gold exchange standard." Do you find yourself in agreement with that?—Yes.

875. It continues—"but it is assumed that the recommendations of the Babington-Smith Currency Committee that a gold coin should be put into circulation will be accepted." That leaves me in some doubt as to why the assumption is made. I do not know if you are in a position to cast any light on that?—I think it is a case of somewhat loose wording. I do not think it is an expression of opinion by any of the members who collaborated in the memorandum. In fact, I do not know what Mr. Denning's opinion on that point is. We merely reproduced this as being the recommendation of the last Committee. We did not analyse it on its merits. Personally, unless it is a step to something further, I do not think that gold coinage is in any way essential.

876. Do I gather from that that, assuming an exchange standard is looked upon not as a transition but as the final stage, you yourself see no advantage in promoting the circulation of gold as currency?—No, Sir, I see none.

877. Following that up, are you prepared, on the basis of that opinion, actually to terminate the present provisions as regards the position of gold as legal tender?—I would not do that.

878. Will you tell us the reason for that distinction?—The position is, if people desire to use gold they may, and they have the opportunity, under the gold exchange standard of importing gold. But I do not myself see the necessity for Government, in addition to that, to go to a certain amount of expense and trouble in coining gold. Gold is under that system, available if the people actually require it.

879. Then you would preserve the privilege of gold as legal tender in circulation at the rate selected as part of the automatic protection of the rate of exchange?—Yes, I would revert to the pre-war arrangement as regards gold.

880. But you would not recommend, on a purely exchange standard, the adoption of any measures for the actual promotion of gold in circulation?—No.

881. Now I pass from that to the gold standard on the basis of what you have told us about the rupee as legal tender, and I would like to ask you first of all about the cost of that standard. I think it would be useful at this stage of the evidence if you would be so kind as to give the Commission a clearer account of precisely where, when, and how the cost of the adoption of a gold standard would arise. What would be the objects of the expenditure which involve the cost of the introduction of a gold standard?—The cost depends first upon the quantity of rupees which we must assume will have to be redeemed in gold. Secondly, you have got to sell the silver at a rate which also has got to be assumed. You have got to redeem a certain number of rupees and the first element to be decided in determining the cost is the quantity which you have to redeem. The second element is the price you are going to get for the silver and this depended upon the price to which silver may be driven down by your operations.

882. The cost of the scheme is thus the cost of replacing by gold whatever silver is tendered, less whatever is realised upon the bullion value of the silver which is received?—Yes.

883. Are there any other items of expenditure?—In providing the gold you will utilise such sterling resources as you have and a certain portion of those will be required to keep your reserve at the point at which you wish to fix it; any deficit remaining over will for the time being have to be borrowed. You will have to borrow in order to obtain the gold.

884. The cost of whatever borrowing has to be carried out in order to obtain the gold?—Yes, on which you will naturally have to pay interest. Those are the main elements. There is a capital charge which can be treated as such and there remains a recurring charge rather higher during the transition period, and rather lower in permanency.

885. Is there any other item of expenditure?—I think that is all.

886. Those are all contained in the analysis?—Yes.

887. Having obtained your opinion from the point of view of the nature of the expenditure, let us take now the actual figures. We have in the memoranda before us two accounts of what the cost might be.

The first is in Mr. Denning's memorandum, in which he arrives at a cost, for the installation of the system, of 4 crores a year for the first ten years and about 3½ crores thereafter. I am referring at the moment to the Memorandum on the Indian Currency System?*—If I may point out, Mr. Denning's memorandum has been corrected in two respects by Sir Basil Blackett.

888. Mr. Denning's proposal, as corrected afterwards by Sir Basil Blackett, is 4 crores for the first ten years and 3¾ crores thereafter?*—Yes.

889. Then Sir Basil Blackett suggests various corrections of estimates and various devices, such as the silver import duty, whereby the cost might be reduced, and he arrives at the final estimate that, with an import duty on silver, the change can be effected without the addition to the public debt of India of a charge on the general revenues during the transition exceeding one crore. I would like to ask your opinion as to what arithmetically the cost of the introduction of a gold standard system would be likely to be?—It is extraordinarily difficult, I think, to arrive at any figures which can be conclusively established. We are of course dealing with maxima. May I consider first the figure of 200 crores of silver which we anticipate would be the maximum that could be returned to us which would have to be redeemed in gold?

890. First of all, take the question as to the basis of the estimate of the amount of silver which would require to be redeemed?—The acceptance of that figure, I think, depends on accepting a maximum figure for rupees outstanding of something in the neighbourhood of 350 crores, because we have assumed that the amount of rupees which would remain in circulation when the rupee is limited tender is 150 crores or thereabouts. That figure seems a fairly safe one. But the figure of 200 as a maximum depends on the total amount of rupees outstanding being not greater than 350 crores.

891. I think it would be best if we went by steps from the beginning. What estimate can be formed as to the amount of rupees outstanding, and on what basis are you able to frame that estimate?—The only method which has been continuously employed in calculating the amount of rupees in circulation with the public is the method which was originally devised by Mr. Harrison and Mr. Adie, who were officers of the Finance Department, the second being a Senior Wrangler, and elaborated—with certain additional checks—by Mr. Findlay Shirras when he was Director of Statistics. This is called the rupee census method, which is very fully described at page 162 and in Appendix II of Mr. Shirras' book, "Indian Finance and Banking". The basis of the method is that every year in the first week of May a certain number of rupees, Rs. 10,000, is taken at random and examined in every treasury in India and in each of the currency offices. There are some 320 treasuries in India and seven currency offices; so that we get every year a total roughly of one-third of a crore of rupees examined, sorted according to the years of issue, and then the percentages of the different years of issue making up the total computed. The figures are published in the Report of the Controller of Currency every year. It is on those figures and making certain very broad assumptions, one of which is that the amount of rupees outstanding of each issue bears some sort of relation to the proportions shown by this examination, that this rupee census method with the various checks described by Mr. Shirras has been elaborated. These figures are kept up to date. I have the latest figure for 1924 which gives 234 crores as being held by the public, *i.e.*, rupees outstanding with the public apart from that held in our reserves. You have to add about 90 crores (including silver awaiting coinage) which we hold in the reserve. That gives us 324 crores as the supposed figure for rupees outstanding, including the silver held by Government. This system has often been criticized, but so far as it goes it does, I think, throw some light on the problem. I have tried to approach the same problem in another way to see whether any subsidiary check can be applied. I have taken the total coinage since the year 1835, when rupees were first coined—647½ crores. This includes 8½ crores coined for Indian States, but as these are current in British India, we must take 647½ crores. Since that time, we have withdrawn the rupees of the 1835, 1840 and 1911 issues; when rupees of those issues come back to our treasuries, they are not re-issued; they are withdrawn and sent down to the mints where they are recoined. The original amounts of those three issues were, of the 1835 rupees, 16 crores 40 lakhs, of the 1840 rupees, 107 crores 83 lakhs, and of the 1911 rupees, 94 lakhs. This last was a small issue which was withdrawn owing to a defect in design. Altogether there were 125 crores of those rupees issued. The orders for withdrawal were given, I think, in about 1900 for the 1835 rupees and about four years later for the 1840 rupees, and since that time the amount of those three issues withdrawn has been 49 crores 86 lakhs. A large quantity of these issues must be assumed to have disappeared before the year 1900, since our latest returns for the last five years show than on an average only Rs. 2,60,000 of the 1835 issue are now coming back, Rs. 29,13,000 of the 1840 rupees and only Rs. 9,000 of the 1911 rupees. You practically never see any rupees of these issues in circulation except by the merest accident and there is not likely to be a very large quantity of them retained in hoards. I think we may assume that the great majority of those issues have disappeared. If we allow even five crores to be still outstanding, we can deduct a figure of 120 crores from the total coinage. Again, the total amount of recoinages from 1835 has been about 90 crores from which we should deduct about 50 crores, representing the recoinage of the 1835, 1840 and 1911 rupees and allow, say, 5 crores for recoinage of half rupees included in my figure of 90 crores. We thus get another permissible deduction of 35 crores. Deducting 155 from 647½ we get 492½ crores as the maximum possible outstanding without allowing for any melting down or loss of any of the other issues since 1862. I think it may be argued from this that a figure anywhere in the neighbourhood of 400 crores would be too high, since 92½ crores seems much too low for the amount lost by melting and disappearance of the other issues. This provides some sort of confirmation of the figure given by the rupee census method and would, I think, justify us in taking 350 as the maximum amount outstanding rather than 400.

892. This is a matter of primary importance. Might we ask for a memorandum from your Department giving the result of these methods of estimation, on the one hand the census and on the other your own confirmatory calculation which you have just given to us?—Certainly. I have all the figures here, if you would like to have them now.

893. I think they would be more valuable if we might have them in the form of a memorandum. Such a memorandum would consist of the best estimate, based first of all on the census and secondly on your own calculations, that can be given as to the amount of rupees outstanding, if possible discriminating between rupees in hoards and rupees in active circulation?—That, I am afraid, I see no method of getting.

894. There is no basis for a scientific estimate of that?—No.

895. Nevertheless it is a matter which is of course very relevant and on which you possibly have formed some rough opinion in order to arrive at your maximum for the introduction of the gold standard?—We have to do it backwards by estimating the total amount outstanding and assuming the amount required for circulation.

896. Your estimate is a maximum of 350 crores, of which some 150 are in active circulation?—Yes.

897. One hundred and fifty crores would remain in active circulation, leaving some 200 in the hoard

* NOTE.—*These figures referred to certain drafts of the memoranda.*

category, which it is very difficult to define. Having arrived at that figure as the basis, may we refer to the cost of the introduction of the gold standard? In your own opinion, the principal thing to consider in this connection is that we have one estimate of the 200 crores of rupees to be redeemed, and Sir Basil Blackett's suggestion that that might be reduced to 150 crores. I would like to ascertain your views as to which of those two figures it is safer to adopt? —If I had to take a maximum, I should take the figure I have just given. It is, of course, a maximum, and the lower figure may be nearer the trnth than mine. I should, however, prefer, so as to be absolutely safe, to adhere to my figure, that is, the figure of 200. I think it is safe from both points of view, both to the amount outstanding and the amount required for circulation.

898. That is a difference of 25 crores in the capital cost of the introduction of the scheme, according to Sir Basil Blackett's calculations, as expressed in paragraph 21 of his memorandum. In the second place, the margin between the two estimates of cost that have been suggested to us is covered by an amount in respect of an import duty on silver. What is your opinion as to (*a*) the policy, and (*b*) the consequences of the adoption of that measure?— I think it would be justified if the policy accepted is that we should work towards a gold standard. Then, and only then, would it be desirable to introduce anything in the nature of a duty on silver which was deliberately abandoned as the result of the recommendations of the last Committee. But in those circumstances, and provided that the end was sufficiently desirable, I think that it would be justified. I think it would be unpopular in some quarters.

899. What would be the reactions, social and political, upon the populace of the introduction of such a measure?—It would confer some benefit, assuming you are going in for a gold standard, by giving some support to the value of the silver retained in this country. I think it would really be some benefit to the people of the country who are the possessors of silver. I think it would certainly be upsetting to those who are engaged in the silvor trade.

900. Any popularity, therefore, will be with the sellers and not with the buyers?—I think so.

901. Finally, the third factor, which accounts for the margin of difference between the two estimates of cost, is that Sir Basil Blackett allows for a reconsideration of the proportions proposed to be adopted for the new currency reserve. Will you give us your opinion as to which of the two schemes proposed would be the safer arrangement to adopt in respect of tho reserve?—The one in Mr. Denning's memorandum is the one to which I personally gave my adherence. The amount of gold provided in that scheme is not, so far as I am aware, greater than is considered necessary by most countries, but I am open to correction. The figures in Sir Basil Blackett's memorandum seem to be rather low in regard to provision of gold.

902. You consider that, as regards the actual provision of gold, the larger figure referred to in Mr. Denning's memorandum is, on the whole, the safer? —Yes.

903. So that I receive the impression (you will correct me if it is an inaccurate impression) that you are, on the whole, of the opinion that the safer course would be to anticipate that the expenditure would approximate to the higher figure than to the lower figure?—What we have attempted to do in this memorandum is to take an absolutely safe maximum, and on that basis if you want an absolutely safe maximum I should prefer to retain the figures in the first memorandum. I think all the figures in this memorandum are possibly a shade too high, but there is one figure which is very uncertain, the figure of 24d. as the price which will be obtained for the silver.

904. Will you explain to us in a little more detail why you feel some doubt as to the estimate of the price to be received for the silver?—It is more or less guess-work; I have very little inside knowledge of the possible reactions on the silver market, but I think it is fairly evident that whatever we may do, we shall not succeed in reducing very much the amount of new silver produced. It is not possible temporarily to throw out of action a large amount of the world's sources of supply. In the very full report before the last Committee by Professors Cuthbertson and Cullis it was made clear that only 20 per cent. of the world's silver mines are pure silver mines, and in 60 per cent. the main products are base metals, silver being merely a by-product, so that any action we can take cannot to any great extent bring about a contraction of the annual supply. Therefore, I should expect a very heavy fall in the price of silver immediately on the commencement of these operations. The only parallel which I can think of on anything like this scale was the sale of silver by Germany after 1872. Germany threw on the market in the course of six years a supply of silver equal to one and one-half times the world's production at that time, and there was an actual fall in the price of silver from 59 5/16d. to 50d.; but there were other factors then making for weakness of the silver market, such as the cessation of silver coinage by the countries of the Latin Union and Holland, and a shortage in the demand from India, so that one would have expected a fall in any case. It follows that the operations of Germany did have a comparatively small and a temporary effect. The operations here would be larger, they are twice as large relatively to the world's production as in the case of Germany. That is the only parallel I know of operations on this scale, but even allowing for the comparatively small effect of the German operations, I myself feel very nervous regarding the price that we should be able to get for our silver if anything like our maximum figure had to be sold.

905. Have you taken into consideration, in forming that opinion, the possibility that there might be a substantial selling of silver, upon the announcement of any such policy, on private account from the melting down of ornaments, and so forth, in India? —The fall in the price of silver would presumably stimulate the buying of silver out here.

906. That is just the point upon which I want to be quite clear in my mind. It has been suggested that silver is looked upon in the form of a bangle as much as a store of value as of an ornament, and that, if the value of that store is threatened with depreciation, there may be a movement on the part of tho holders of bangles to sell out in order to get into some safer store of value?—I am not certain what the effect would be on the holders. Bangles and ornaments are very largely regarded as a store to be drawn upon in times of necessity. If one visits the bullion market, one can see silver ornaments being brought in to be turned into cash in bad seasons. They are regularly drawn upon as a store of value in hard times, but whether the holders of these would get alarmed at the fall in the price of silver, I doubt very much.

907. That is really a question of the rapidity of apprehension on the part of the uninstructed public as to the future movements in the value of their silver ornaments?—Yes.

908. Finally, if we may assume for the purposes of the next question that the cost will be somewhere in the nature of the higher figure referred to, will you tell us in broad outline what would be the reaction upon the Government's finances of the incurring of such a cost?—The position as regards the Budget is, as I was saying this morning, that it is adjusted on a basis of 1s. 6d., and I was quite rightly corrected by Sir Reginald Mant when he said that we have only adjusted it without allowing for the obligations which have been entered into definitely so to shape our financial policy as to reduce the 733 lakhs of provincial contributions still outstanding and also to get rid as early as possible of the cotton excise duty of anything from 1½ to 2 crores. It is, of course, a matter for Government

and the Legislature to decide whether they would be prepared to find the money in some other way. I myself think that any figure of the kind contemplated in this memorandum is very difficult to contemplate until these obligations have been wiped out.

909. (*Sir Henry Strakosch.*) At what figure would you put the loss resulting from the sale of these 200 crores of rupees, taking your own estimate of the future of silver?—I am afraid I have framed no figure. The factors are too uncertain, but 24d. is, to my mind, rather high.

910. (*Chairman.*) If there are any supplementary questions upon the details of the last passage of the examination, we might take them now.

911. (*Professor Coyajee.*) May I be permitted to draw attention to some other factors affecting the cost of the introduction of the gold standard. In the first place, there would be a fall in the price of silver ornaments throughout the country. I mean, there are two kinds of hoards, the rupee hoards that will come out at once and claim compensation, but as regards the ornament hoards, their value will fall and they will have no compensation whatever. Is not that an additional element of cost to the country?—That is one of the reasons why I advocated in these circumstances the re-imposing of the duty on silver, because I did realise there would be a loss to the holders of silver ornaments, and to some extent you can reduce that.

912. But, of course, there is no compensatory element here. I submit there would be a rise in the price of the contents of gold hoards so far as anybody holding gold is concerned, and it may be supposed that the price of gold may be supposed to rise to a certain extent, and there would be some compensation to the holders of gold hoards. Don't you think so?—If the price of gold is going to rise, that is one of the difficulties, because of its effect on prices. At the same time private holders would gain something because of the rise in the value of their hoards.

913. Do you think an import duty on silver will be attractive to any considerable extent, because if the price of silver goes down people will be alarmed so that people would import or buy silver to a very slight extent, and there would be nothing much productive financially in any way from the duty?—We did not contemplate getting any money directly from the duty, but through the improvement in the price of silver which we would sell in India. There was no question of the import duty bringing in revenue.

914. (*Professor Coyajee.*) Because the price would fall back by a large amount owing to the sensitive silver market. In one year, as you have yourself seen, the price went down to 32d., so that the loss would be very appreciable.

915. (*Sir Purshotamdas Thakurdas.*) I understand you have about 90 crores of rupees and bullion, and that it is not likely that the Government of India will enter the silver market for purchases at least for the next year or two years?—There is no likelihood in the next year or two.

916. That fact already has had a certain amount of effect on the silver markets of the world?—I suppose it has.

917. Of course, the situation will be accentuated by any such announcement that the Government of India will not ever be buyers of silver and may be sellers of silver, and to this extent the fact that we hold more silver than we need for the next two or three years has a certain depressing effect on the market?—I suppose it has.

918. And if the bullion price of silver comes down the value of the silver ornaments in the hoards will depreciate and the Government of India cannot help it?—Yes.

919. But perhaps the most serious effect of all may be that if the bullion prices go down further, the very confidence of the people in the rupee may be shaken; have you considered this at all?—I had not really taken as a factor in the silver question the Government of India's recent abstention from coinage; they have not coined silver for some time, and as far as one can see there is no immediate likelihood of it. The silver market is a fairly wide one; but I have really no knowledge of how far the Government of India's recent position may have temporarily depressed the price.

920. The silver market has gone down to 31d. I am told?—Yes; it varied from 33d. a short time ago to about 31d. now.

921. I wonder if at 31d. what the actual value of the bullion in the rupee can be said to be?—It is given in an Appendix to the Babington-Smith Committee's Report,—Sir Lionel Abrahams' evidence gives the table.

922. Roughly the popular idea is that the rupee is worth less than 10 annas to-day?—I could find the figure for you.

923. I do not think I need an accurate figure: Sir Norcot Warren also confirms me in my supposition that it is worth about 10 annas, which means that there is already a depreciation of 40 per cent. in the value of the rupee. If there is likely to be any further depreciation in the silver market then the confidence of the Indian public will be shaken very rudely in the rupee, and to that extent is it not preferable to give them something which is more solid and something which would really have their abiding confidence rather than continue this token coin? As you said, it will be for the Government and the Assembly to decide regarding the extra cost; but does not this other question weigh equally from the point of view of keeping the people's confidence in the currency of the country?—I was naturally discussing the question of cost so far. I have not been asked definitely as to the advantages or disadvantages of adopting a gold standard.

924. (*Chairman.*) Probably Mr. McWatters would prefer to answer that at large.

925. (*Sir Reginald Mant.*) Do you estimate that you will be able to sell the whole of this silver in India?—I doubt if you could sell all of it in India.

926. But your estimate of reducing the cost by a four-anna duty on silver assumes that you will be able to dispose the whole of it in India?—It practically does, that particular estimate, yes.

927. If you cannot sell it all in India?—The silver duty will naturally help you so far as your sales are completed in India; the Indian demand is very hard to estimate; but over a period of ten years I should hesitate to say; but I should rather doubt if it would be as much as 200 crores.

928. Then you would either have to take a longer time to dispose of your silver or you would get a smaller price for it?—That is so.

929. (*Chairman.*) Before I ask you a final question, there are one or two matters I want to refer to. I understand you will be able to give us some statistics of the absorption and return of rupees from circulation during the busy season?—Yes; I understand those figures came in in the course of discussion when Sir Basil Blackett was heing examined.

930. That is so?—I have taken the period from the year 1912-13 to the year 1924-25, giving the absorption of rupees in the busy season, the return when there was one in the slack season, and the net result for each of those years in the form of a statement.

931. Do those give us monthly figures?—No, the statement distinguishes the two portions of each year; the busy season in some years begins earlier than in others; I simply call it the busy season; it is usually from November to March or April.

932. What are these figures?—They are crores and lakhs of rupees.

933. What are they,—currency outstanding?—Rupees withdrawn from the paper currency reserve and coming back into the reserve.

934. That is, figures of rupees withdrawn from the paper currency reserve and the rupees returned into the paper currency reserve, withdrawn in each busy season and returned in each slack season?—Yes.

935. (*Sir Henry Strakosch.*) Are they divided between notes and rupee coin?—The figures show rupees only.

936. (*Sir Henry Strakosch.*) It would be interesting to have figures of notes coming in.

937. (*Chairman.*) The figures of the total circulation are not given. Are those not given in the Appendix to the Report of the Controller of Currency?—Yes; I do not know if they are in the exact form to which Sir Henry refers.

938. Will you consider that and let us have the figures which Sir Henry suggests, either by reference to some readily available source or by addition to this table?—Yes. The reason that I prepared the statement in this form is that the currency reports do not distinguish between the busy season and slack season; I thought that what was required was the maximum amount of rupees that would be liable to go out during the busy season. It shows that in the year 1913-14 there was a total fluctuation of 26 crores and a total withdrawal on balance of 6 crores.

939. I will give you this back, and, if possible, you will supplement it in the manner Sir Henry has described. The second head of information which I trusted we might obtain from you was some statistics as to the amount of the demand on the sterling reserves in a period of exchange weakness?—Yes. I have prepared a statement. The first period of which I have given information is the crisis of 1907-1908. I have given details here showing the total demand to have been about £18 millions. For the later periods the information is given most conveniently in statement No. 3 in the Controller of Currency's report for 1923-24 and earlier years. The statement does not occur in the report for this year; so that you will have to go back to the year before; it has been omitted in this year's report because it was thought that it was not appropriate in the Controller of Currency's reports. But this statement gives the whole of the details of the cash transactions of the Secretary of State and from that everything that is required to estimate the demand on the sterling reserves could quite easily be picked out. It gives the sterling balances, war transactions, movements in the gold standard reserve, and everything needed in the form of a balance sheet and I think that statement would give any one who wishes to go into the matter further, absolutely all the information that is required.

940. It can be quite easily picked out by one who is not familiar with accounts?—I think so. I have picked it out for the three years in which reverse councils were actually sold, and the other years could be worked out in the same way.

941. A mere glance at this table suggests to me to ask whether some official of your department would be so kind as to analyse that information for us?—I think Mr. Aiyar can do it. It is actually his own report as Controller.

942. Just before I ask you the general question to which I referred just now, in order to make sure that our minds have the same considerations in view, the amount of gold required to put the gold standard system into force is estimated in the memorandum, if I remember aright, at 103 millions sterling?—Yes.

943. The requirement being spread over a period which may be estimated in various ways?—Yes.

944. The exact period during which the gold will be required being subject to many hypotheses?—Yes.

945. Have you taken into consideration, in forming your conclusions upon this matter, the effect of this demand upon the general level of gold prices?—Yes. I would propose to deal with that in my general observations on my attitude towards the scheme as a whole.

946. I only wanted to be sure that all major considerations would be dealt with in your reply. Then let me ask you: in view of the estimates of cost into which we have entered; in view of the effect upon the budgetary situation of the Government of India; and in view of the general considerations as to the effect on prices to which we have referred, what, in your opinion, are the comparative advantages of a gold standard, the comparison being either with the gold exchange standard or the sterling exchange standard?—I agree with the view taken in the memorandum that the gold standard system would remove, so far as is possible and more completely than either of the other systems, the defects that remain in the Indian currency system; and in particular that it would help to cure the first defect mentioned, viz., the danger to the system from a rise in silver prices. But the main value of the gold standard system must be joined on wider considerations. It is impossible to measure the benefit in money and it must be a matter of opinion how far the introduction of such a system would in practice work towards the ideal system, that is to say, how far you will really be able to get through the stage of gold currency to the stage of doing without it. If you could do so, I think that the gold standard system would be both progressive and educative and more suitable far more than any other. I think the main problem in India to-day is the development of the latent sources of wealth of the country. We meet this problem at every turn: the question of raising rupee loans in India; the question of obtaining money from Indian sources for all the great requirements of the country. If the introduction of a gold standard did have the result, as some of us believe, of weaning people from their present habit of storing precious metals, it would be worth paying a good deal for it. That it might do so, I think, follows or should follow from the fact of human nature that when people can be certain of getting something readily, they are less likely to store it; when the currency of the country is convertible into gold, they will be less likely to wish to keep a store of gold. It is really in expectation that something of that sort might happen that one desires to take rather a wide view of the possibilities of the gold standard. As I said, it cannot be measured in money; but I do believe that its introduction would be to the advantage of India, if it could be effected without corresponding or greater disadvantages—; and to that point I shall turn now. As regards the cost I have already expressed my opinion that anything like the figures given in this memorandum* seem to me too heavy a cost for us to face, at the present time at any rate. In the second place there are two dangers on neither of which I am in a position to give a definite opinion; first, the effect of such operations on the price of gold, with a consequent reaction on India herself through a fall in prices and the disturbance of the currencies of other countries; and secondly, the extremely disturbing effect upon the silver market. I think these are both dangers inherent in this scheme; and I am not in a position to form an opinion on their gravity; but the difficulties do appear to me to be formidable; and if the result of going on to the gold standard were to involve India in dangers greater than the benefits which I believe the scheme would bring, it would obviously be a dangerous proposition.

947. (*Sir Henry Strakosch.*) Do you think that the introduction of gold currency in India would have any effect on the volume of the note circulation? Do you think that the gold coinage circulation will not replace notes which at present are in circulation?—I think that to some extent the gold currency must replace notes; but with the establishment of a gold standard I should expect that there would be ample room for the expansion of the note issue as well as for a certain amount of gold in circulation; I do not think in the long run it would hurt the note circulation.

* NOTE.—This refers to the figures in the earlier draft of the memorandum.

948. Another question is this: would you regard the gold in circulation in the pockets of the people as of any great value to meet any pressure on the exchange? Do you think that in times of stress gold would come in about the same proportion as notes? —I think that it might be of some use as a reserve, though not nearly as useful as gold held by Government.

949. You would not think that, under really serious pressure, the tendency would rather be for notes to come in that gold?—The tendency would certainly be that.

950. So that one might say, if one were cautious that the gold in circulation would hardly be available or could not be relied upon as a reserve to maintain exchange?—That is, that gold in circulation is an ineffective reserve to rely upon? I agree.

951. And that therefore a reserve to maintain the external value of the rupee even under a gold standard would have to be practically as substantial as the reserve under any other system?—Yes, I agree.

952. (*Prof. Coyajee.*) It has been suggested that one effect of the introduction of a gold currency would be to weaken the hold of the Imperial Bank on the local money market, because the Indian money market will be swayed by the discount rate in London? —I am afraid I have not considered that.

953. (*Prof. Coyajee*): Because gold currency might be wanted in England and so it is the rate there which will sway the money market rather than the rate of the Imperial Bank.

954. (*Sir Norcot Warren.*) I do not quite understand that.

955. (*Prof. Coyajee.*) The hold of the Imperial Bank upon the local money market will be weakened by the introduction of a gold currency because with gold currency prevalent here gold will be coming out as required from London, and its coming out and going back will depend more upon the rates prevalent in London than on your rate.

956. (*Chairman.*) Have you any view on that?—I have not considered that.

957. (*Sir Purshotamdas Thakurdas.*) If I may repeat the question I put before. Should there be any further depreciation in the price of silver bullion, as is anticipated by some; do you think that the confidence of the people of India in the rupee would be badly shaken or not?—I should doubt whether the confidence of the people of India would be much shaken; they have experienced some very extreme vicissitudes in the price of silver in the last generation from 20d. to 80d. I do not think it will really affect the position as regards the rupee.

958. You do not think therefore that any depreciation in the rupee bullion values would really matter as far as the masses' confidence in the rupees is concerned?—I do not think so; I do not think there would be any essential danger.

959. Of course there have been fluctuations in the silver bullion value, but it was about 25 years back? —I was referring particularly to the prices, during the war, when they went up to over 80d. and down to 30d. within 12 months.

960. That was an appreciation first and later on a depreciation. The depreciation did not matter very much for two reasons, because there was no other metal available and we were in the midst of a war; but when you referred to the drop to 20d., I thought that you referred to a longer period back?—I was referring to the period from about 1902 to 1910.

961. During this interval the people have been clamouring for gold currency, and you do not think that in view of the lapse of fifteen years and the general clamour for a gold currency, any depreciation in prices of silver bullion would matter?—I do not think it would make any difference to the rupee being accepted in India and being welcomed as the coin of the country; I do not think the bullion value of the rupee really is known or appreciated by the ordinary people who use the rupee.

962. It would, then, I take it, surprise you, if you found that people were really beginning to think about this and that they were really watching the fluctuation downwards, if there were any, in the silver market?—I should be surprised if the mass of the people of India were doing so.

963. For example, if there were talk in the bazaars that the rupee generally was worth only eight annas? —I was not referring to the talk in the bazaar. I was referring to the opinion of the people all over the country.

964. The masses of the people take their cue, don't they, from what is being talked about in the bazaars, say in Delhi or Ahmedabad for example, leaving aside the presidency towns? Of course we know that what is being talked about in presidency towns does not come down to the masses so quickly?—Yes; I have no doubt the towns influence the country; they always do.

965. Regarding the question of cost, if the people felt that they were having something really solid and substantial and that something which was not worth the face value of it was being replaced, do you not think that the people may reconcile themselves to reasonable additional cost for that?—The question of whether the cost should be accepted really is not for me. It may be that the people as represented by their legislature might say it is worth the cost. I was giving my own opinion.

966. I was only asking you since you have been in the legislature. I was wondering whether you were prepared to express an opinion as to how the legislature is likely to view this?—I can give no opinion on that.

967. (*Sir Henry Strakosch.*) With reference to the last question that Sir Purshotamdas Thakurdas raised, whether a fall in the price of silver might cause distrust in the rupee, and might make it less popular, what was the experience measured by the note circulation in relation to the rupee coin circulation when the price of silver dropped? We have in this country circulation side by side of a note printed on paper of no intrinsic value at all, and the rupee coin which is a note printed on silver; their circulation side by side commands exactly the same prices. When the price of silver fell, did the circulation of rupees diminish and that of notes increase or *vice versa*?—The first effect of the year 1921, when there was a heavy fall in price of silver from 80d. to 30d. was an enormous return of rupees from circulation.

968. And notes were demanded?—Yes.

969. Which notes are convertible into rupees?—Yes; the two years following the fall in the price of silver resulted in the currency being choked with rupees.

970. What inferences would you draw from that? —At the time I did not draw any inferences except that it was an obvious proof of the slackness of trade, which is always shown by rupees returning.

971. It did not indicate to you that there was less trust in the rupee?—I drew no such inferences at the time.

972. (*Sir Purshotamdas Thakurdas.*) Just arising out of that question: the people realise that the note is only a promise to pay rupees and therefore if they had mistrust in rupees they would not rush for notes, is not that so?—I do not think there was any mistrust.

973. Even if there was a mistrust in the rupee they would not come for notes; they would come for bullion at whatever price they could give for their hoards; notes are simply a promise to pay rupees: it is not that the notes are backed by gold or anything but a promise to pay rupees?—Yes.

974. (*Sir Reginald Mant.*) I gather from your reply to the Chairman that you consider it to be too dangerous a leap in the dark to attempt to introduce a gold standard now. Do you think that the cost and the risk will be materially reduced by waiting a few years in view of the very large imports of gold that

have taken place in recent years, especially last year, when about 73 crores, I think, of gold coin and bullion was imported in 1924-25?—I think that both the cost and the risk would be reduced after a measurable period. The cost would be, because so long as we do not coin any more silver the amount of silver help in the reserve is bound to go down. It should go down at the rate of about nine crores a year. And therefore you could soon count upon a drop of 30 or 40 crores in the amount of silver that you will eventually have to redeem. You will certainly be able to reduce the cost by waiting. And the risk—it should be less also in view of the smaller amount of silver to be redeemed, but I should still find it difficult to estimate the risk arising either from the gold problem or the silver problem.

975. But India is absorbing gold now at a very rapid rate?—She did last year at a very rapid rate; this year to a smaller extent.

976. And that gold—the greater part of it—is presumably replacing rupees in hoards?—Yes there is almost direct evidence of that from our returns of absorption last year.

977. Well, if the absorption goes on at that rate, presumably all the hoards will eventually be converted into gold by natural processes, without any stimulation from Government?—I agree that the problem should be made very much easier by waiting. The process by which it will be made easier is going on.

978. It may in fact come about by natural causes, without any heroic measures?—That I am not prepared to say.

979. I was only asking whether it is a possibility?—It will take some time, I think, unless it is given a stimulus of some kind.

980. (*Sir Henry Strakosch.*) May I ask another question? Mr. McWatters, you mentioned just now that silver hoards have apparently been replaced by gold hoards. But what has happened to the silver? I see no record of any silver exports from this country except in years of really extreme prices?—We assume that the silver that has come out has been used as currency, because our currency returns do not show that amount of silver being issued which we should expect. In view of the fact particularly that the one-rupee note has been abolished, it is most extraordinary that the amount of silver that has been absorbed during the year is so small as it is, and the only way we can account for it is that a large number of rupees have been replaced by gold and are being used as currency in the country.

981. And the fact that your accumulation of rupees has not gone down might be accounted for by that fact?—That actually has been given by the Controller of the Currency as the reason in his opinion.

982. (*Chairman.*) The replacement of silver in hoards by gold is, therefore, indirectly inimical to the finances of the Government in so far as it delays the absorption of the Government's unnecessary stock of rupees?—I had not thought of it in that way. But it is so. We have a redundancy of rupees which, strictly speaking, on the ground of economy we ought not to hoard. They are uneconomical.

983. This is the last question with which I will trouble you. I think perhaps you may be able to give us some useful assistance with regard to the terms of transfer to the Imperial Bank. Suppose there is a transfer of the note issue. We have already discussed it in some detail to-day, so that there is no necessity for you to do so. Three alternative methods are proposed in the memorandum of Mr. Denning, by which the Imperial Bank might make a payment in respect of the privilege of monopoly of note issue. Can you express an opinion as regards the comparative merits and advantages of these three methods which are set out in paragraph 18 of Mr. Denning's memorandum?—The first alternative is that Government might take a share in the profits of the bank. My personal opinion is against that alternative. I think that it is somewhat undesirable for the Government to be in any way dependent, so to speak, upon the actual earnings of the bank or to be so closely associated with them. I think it would interfere not only with the Government's budgetting, but also with the independence of the bank. I should think the bank would also find it extremely inconvenient for the Government to be a part sharer. On the whole, I dislike that alternative.

984. The second alternative, to keep a profit and loss account, is practicable?—From the separate memorandum which Mr. Denning has submitted I think it will be realised that it involves a fairly complicated statement of accounts. The appendix to the memorandum on the profit obtained by the Government on the note issue shows the various items which go to make up the debit and the credit side of this account. On the whole I think it quite a possible system, provided that one can arrive at the proportion of certain costs to be debited. There are items, for instance, such as the loan of currency buildings—I think you could arrive at a balance-sheet. It is a little complicated and it is extraordinarily fluctuating. These are the two possible objections to it. It is fluctuating largely because of the difference in the amount of the sterling securities held and because the whole of the interest on the loans of seasonal currency may be credited in the next financial year, as happened last year. On the other hand, the expenditure has gone down owing to the abolition of the one-rupee note. But I think that alternative is possible.

985. With regard to No. 2, do you consider it possible that the Government might desire to keep some control over the overhead charges of the note issue department from the point of view of ascertaining their proportion of the profits?—I agree that would be a difficulty. And also they would have to institute a very elaborate audit and examination of the books. But in any case the books would have to be audited very carefully. On the whole I prefer the third scheme of a percentage on the invested portion of the reserve, if a workable scheme can be devised. If it is revisable after an interval, say, of five years, I think a tentative scheme of that kind would probably be the best of the three alternatives.

986. What specially commends No. 3 to you?—Its simplicity and rather the avoidance of the difficulties of the other two than any special merits of its own. I think it bears some relation to the actual facts.

987. There is also the advantage, if it be an advantage, that it has not uncommonly been adopted and has been found to work well elsewhere?—It corresponds, I think, to the German Reichbank system.

988. (*Sir Henry Strakosch.*) May I ask if the second system would not involve the separation of the banking department from the issue department?—I think it would. And that is, in fact, recommended in the memorandum.

989. (*Chairman.*) Are there any further supplementary questions on the question of the terms of transfer? Apparently no members of the Commission have any questions to ask. I do not know if there is any topic to which you think you might with advantage refer to supplement the questions which we have asked you?—No, Sir, thank you; I have nothing more to say.

990. (*Chairman.*) The Commission is very much obliged to you indeed for your assistance to-day.

(*The witness withdrew.*)

FOURTH DAY.

Friday, November 27th, 1925.

PRESENT:

The Right Hon. EDWARD HILTON YOUNG, P.C., D.S.O., D.S.C., M.P. (*Chairman*).

Sir Rajendranath Mookerjee, K.C.I.E., K.C.V.O.
Sir Norcot Hastings Yeeles Warren, K.C.I.E.
Sir Reginald Mant, K.C.I.E., C.S.I.
Sir Henry Strakosch, K.B.E.
Sir Alexander Robertson Murray, C.B.E.
Sir Purshotamdas Thakurdas, C.I.E., M.B.E., M.L.A.
Professor Jahangir Cooverjee Coyajee.
Mr. William Edward Preston.

Mr. A. V. V. Aiyar, C.I.E.
Mr. G. H. Baxter (*Secretaries*).

Mr. H. Denning, I.C.S., Controller of the Currency, called and examined.

991. (*Chairman.*) Mr. Denning, you are the Controller of the Currency in the Government of India?—Yes.

992. Will you tell us, for the sake of our record, what your previous experience in the financial administration has been?—I joined the Finance Department originally in 1916. I was a Deputy Accountant-General for about two years. Then I became Under-Secretary in the Finance Department, in which position I stayed about six months. I then went to the India Office on deputation and was Joint Secretary of the Babington Smith Currency Committee. In April, 1920, I came out to India as Deputy Controller of the Currency, Bombay, in which position I remained, apart from intervals of special duty, up to March, 1923, when I became Controller of the Currency.

993. We understand that, on this occasion, the evidence which you will give will be given in your personal capacity and not officially on behalf of the Government of India?—That is so.

994. We have had the advantage of very full memoranda with which you have provided us, in particular, a memorandum upon the question of a gold standard for India, a memorandum upon the terms of transfer of the note issue to the Imperial Bank and a supplementary memorandum to that; and you have also, I understand, taken part in the consultations with Sir Basil Blackett and Mr. McWatters, on which the memoranda with which we have been provided were based?—That is correct, with one exception, that I took no part in the discussion on the separate memorandum put in by Sir Basil Blackett.

995. Oh, yes; that I should make clear, that Sir Basil Blackett's memorandum on the Indian Currency System is his own personal memorandum. I should like, in the first place, to ask you one or two questions suggested by the historical memorandum, and which perhaps can best be answered by the present occupant of the position of the Controller of the Currency. Let me draw your attention, first of all, to the system by which loans are made to the Imperial Bank of India from currency against hundis and ask you whether this arrangement works smoothly?—In my opinion, it does not work at all smoothly, for more than one reason. In the first place, the Imperial Bank find considerable difficulty in getting the necessary amount of genuine hundis to place in the reserve against the note issue, and both last year and the year before they had to resort to inducing firms which have hitherto financed themselves by cash credits to finance themselves by bills in the place of cash credits. These bills, although they represented a real demand for finance for trade, did not represent any definite goods or commodities. They were in effect manufactured bills substituted for cash credits. Another difficulty is the decision as to how the currency shall be expanded when necessity requires it—as to whether it shall be expanded by issuing notes against treasury bills put into the reserve in London or by issuing notes against hundis in India. The bank during the last two years, mainly because it certainly does not gain anything and may lose something by taking these loans, has always been pressing Government to increase the currency against treasury bills in London. On the other hand, Government, in order that it may keep its resources in London more liquid, does not wish to tie up its resources by placing treasury bills in the paper currency reserve to a greater extent than it is compelled to do. Therefore, during the last two years, there have always been discussions between the Managing Governors and myself as to which of these two methods should be employed. We have always come to an agreement in the end; but it is a definite disadvantage to have two systems of expanding the currency working side by side under the control of two different authorities. The third point which I mention incidentally is the possible loss to the bank. It is very difficult to estimate this loss, and Government have in the past refused to make the bank any allowance for this loss.

996. What is the nature of the loss?—The nature of the alleged loss is this: The bank rate is at 5 per cent. we will say and the hundi rate, we will say, is at 5½ per cent. The Imperial Bank lends money on three months' bills at 5½ per cent. The Bank rate then goes up to 6 per cent and in order to keep the necessary amount of cash in hand, the bank has to borrow from the Government at 6 per cent. while it has a large amount of money outstanding on bills at a lower rate. That I think, is one of the main ways in which it is alleged that a loss occurs. Another which I was going to mention is the stamp duties on the hundis which are manufactured. The stamp duty on hundis is regulated by a graduated scale; but it works out to about Rs. 9 per Rs. 10,000. The stamp duty on a promissory note is at a fixed rate of 4 annas. So in order to induce firms to finance themselves by hundis rather than by cash credits for which they would give promissory notes, the bank paid the cost of the stamp duties on the hundis which were manufactured. Government after some discussion consented to reimburse the cost of these stamp duties to the bank.

997. (*Sir Henry Strakosch.*) May I ask what the rate is?—Roughly Rs. 9 per Rs. 10,000; but for the lower denominations of bills it is according to a graduated scale which is laid down in the Stamp Act.

998. (*Chairman.*) What you have described is apparently a machine turning with a certain amount of sand in the wheels. What is your opinion in regard to the best method for improving the working of this part of the financial machinery?—Do you mean without handing over the charge of the note issue to the Imperial Bank?

999. I mean quite at large?—Assuming that Government continue to control the note issue?

1000. No, making no assumption at all?—Well, I think the best way would be to hand over to the Imperial Bank the control of the note issue, making a provision in the statutory constitution of their reserve which would allow them to expand and contract according to the seasonal demands for the currency.

1001. To complete the picture, excluding that possibility, what method should there be for improving matters, accepting the present basis as to the control of the note issue?—I am afraid I cannot give any definite recommendations on that subject. I have tried in my capacity as Controller of the Currency to devise a better system and I am afraid I have not succeeded in devising anything that is really satisfactory.

1002. (*Sir Purshotamdas Thakurdas.*) You said, Mr. Denning, that when the Imperial Bank want that emergency currency, they have got to present to the Government what you call manufactured bills, that is, bills made out of the cash credits that they give?—Yes.

1003. You are aware that these cash credits are generally given by the Bank against liquid assets of the concerns which the borrowers are in?—Yes.

1004. So that for practical purposes, there is nothing that can be said to be wrong in looking upon the cash credits as bills?—Except that they do differ from a credit given on a trade bill. The credit given on the trade bill is self-liquidating but the cash credit goes on more or less indefinitely.

1005. The trade bill is capable of being renewed.—I agree.

1006. And in ordinary course in a busy trade centre, it would be renewed at the current rate of the day at the expiry of three months. If the man really wanted money and had the liquid assets in which he was trading, it could be renewed as long as the man's credit was good.—Probably.

1007. Does not the same thing happen in the case of these cash credits? A mill for instance holds cotton and holds manufactured articles. Cash credit is given against absolutely liquid assets.—Yes; I do not think there is much essential difference.

1008. I suppose you are also aware in your position as Governor of the Imperial Bank that these cash credits are payable on demand and can be called up any time that the bank wants to?—Theoretically, yes.

1009. Are you aware that in a few cases recently, the Imperial Bank have called up cash credits?—I have seen reports to that effect; but as far as I remember, a fair amount of notice was always given.

1010. You are not aware of any case where they have been called up suddenly? I mean, if a few cases were brought to your notice where cash credits have been called upon at a very short notice, say a week—perhaps shorter than a week—then would you say that these cash credits are in effect the same as trade bills?—Practically the same.

1011. (*Sir Henry Strakosch.*) Dealing with the question of cash credits, when you said self-liquidating bills, you no doubt had in mind bills drawn against goods in the last stages of production and on the way to market, bills which are drawn not against fixed assets which cannot be consumed or against goods which are held up possibly for speculative purposes, but for goods which go to the market and by the process of going to the market become self-liquidated?—Yes, that is really what I meant.

1012. So that if a cash credit is given against that class of goods, that cash credit could legitimately be turned into a hundi, into a self-liquidating Bill, of as good a quality as such bills should be?—Yes.

1013. All I want to say, is that a cash credit given on the security of other things such as, for instance, the installation of machinery which is not a self-liquidating affair or the speculative holding up of goods—those you would condemn?—Yes, those I should condemn.

1014. (*Sir Alexander Murray.*) How would you treat cash credits issued against stocks of raw materials bought by mills either in the shape of cotton or jute that would probably be kept up for 6, 7, 8 months against ultimate manufacture and export in the shape of manufactured articles? They do not come under either of the categories that Sir Henry Strakosch has been putting to you.—I think they do except that the period is longer.

1015. (*Sir Purshotamdas Thakurdas.*) Cash credits which are given to, say, cotton commission agents at Bombay against cotton which is for sale would come under one of the categories mentioned by Sir Henry Strakosch. Do you think that that would be included?—I think, generally speaking, that would come under the class of self-liquidating bills.

1016. And such advances of cash credits generally are very materially reduced always of course in proportion to the stock of raw cotton, for sale, in Bombay, in monsoon months?—Yes. To my answer, I would make this qualification: that if a banker saw that stocks were being unnecessarily held up, he might withdraw the amount of credit given on those stocks.

1017. I am very glad you mention that. You know that the Imperial Bank in Bombay did very severely curtail their cash credit facilities when they saw that the stock of piece-goods was going up during the last six months?—Yes.

1018. Suppose the cash credit system was discontinued in the Imperial Bank and all the mills which are at present financed by cash credit system were told that they would have to present hundis to the Imperial Bank for 60 or 80 days as the case might be, would you, as Controller of the Currency, be inclined to say that these concerns which enjoyed facility of cash credit would be or should be debarred from having their hundis accepted by the Imperial Bank?—No; I should not go so far as that, because I do not know the details of all the cash credits given by the bank sufficiently.

1019. Taking it for granted that the cash credits are given against liquidating assets and not for installation of machinery or to finance capital debts, taking that presumption to be correct, would you then as Controller of the Currency be disposed to say that their hundis should not be accepted?—Not generally speaking: unless, as I stated before, they were holding up stocks unnecessarily.

1020. I wonder if you were in India in 1923 when there was a heavy corner attempted in Bombay known as Rai Sahib Sangli Das Jessiram cotton corner.—I believe I arrived in India shortly afterwards.

1021. In September 1923?—No, I was not in Bombay, though I was in India.

1022. I wonder if you ever heard after you took charge after September 1923, on your return, that the Imperial Bank definitely refused to give a single farthing to Rai Sahib Sangli Das Jessiram?—Now that you remind me, I do remember it.

1023. Do you recollect that the Imperial Bank in Bombay definitely refused to give a single farthing for him?—I think I remember reading that in the reports from Bombay to Calcutta.

1024. (*Chairman.*) We understand that the witness has answered these questions from his general knowledge from the newspapers.

1025. (*Sir Purshotamdas Thakurdas.*) I do not think so. Mr. Denning said he read it in reports from Bombay to Calcutta. I wonder if he means newspaper reports or his assistants' official reports.—As regards that particular question about cotton corners I cannot recollect where I read it.

1026. (*Chairman.*) What is your view in regard to the advantages or disadvantages of making the amount of loans against hundis, under present conditions, a percentage of the note circulation instead

of as at present limited by the gross amount?—I think the percentage system has the advantage that you have not to increase the amount by which notes can be issued against hundis periodically as the needs of the country expand. In India, the needs of the country for currency will probably be expanding continuously and it seems likely that the needs for the seasonal currency may expand also.

1027. Supposing that it were considered a more advantageous course can you make any suggestion as to the actual percentage which it would be desirable to fix?—I have not really considered that point. But I think ten per cent. of the note issue should probably be the maximum.

1028. I was going to ask one or two questions about the purchase of sterling by the Government. That is a matter which has come rather specially within your own sphere of experience?—Yes

1029. We understand that the method of direct purchase of sterling has recently been introduced. Are you in favour of continuing this method of remittances, either in its entirety, or, secondly in partial substitution of council bill sales?—I am in favour of introducing it entirely in substitution for council bill sales. I think it is possible that one might supplement it by a tender system in India. But I think that the conduct of the government exchange operations in two different places, that is, in London and in India, must necessarily lead to a lack of co-ordination between the two controlling authorities, and therefore a lack of continuity in the policy of Government.

1030. Will you amplify a little the reference you have just made to a possible system of purchases by tender? Would that, in your opinion, be a practicable course, and, if practicable, would it be a desirable course?—I think it would be a practicable course. In fact, I see no greater difficulties in receiving tenders, say in Calcutta, than in receiving tenders in London.

1031. What would the advantages of that method be?—Well, I am not quite sure whether there would be any advantages under a stabilised exchange; but during the last two or three years, when exchange has been fluctuating, there have been occasions on which it has been an advantage to have a weekly offer of council bills—I will take as an instance from January to March this year when Government were not prepared to purchase below 1s. 6d. From January onwards exchange weakened considerably, and Government were still anxious to make remittances to London in order to strengthen their sterling resources. If we had to come in to purchase sterling at 1s. 6d., there would have been some little difficulty in knowing how far one would let exchange go up, or how far one would keep it down by purchasing sterling. There was a weekly offer of Council Bills on the market, and in some weeks the tenders at 1s. 6d. or above amounted to the full amount of the offer; in other weeks they were smaller. I do think that during that period, at any rate, Government were able to remit certain amounts at 1s. 6d. without affecting the market at all seriously, and that if we had attempted to remit by purchases of sterling, we might have introduced unnecessary fluctuations into exchange.

1032. Am I right in thinking that the conclusion at which you arrive is that the system of tender might be held as it were in reserve as a possible method, giving desirable results at times of fluctuating exchange, but not for use at ordinary times of stable exchange?—Yes. I would limit it rather more strictly than that, and I would say that the system of tenders should be limited to the times when exchange is fluctuating with a tendency to weakness and when Government are anxious to remit.

1033. Mr. McWatters told us that there has been a demand by the commercial public for the more frequent publication of statistics of purchases, etc. Do you think there is any objection to meeting that demand?—I see no objection to meeting that demand to a certain extent. One form of the demand is that we should publish each morning the amount we purchased the day before. I do not see why we should give away such details of our operations to the public. On the other hand, I see no harm in meeting the demand so far as to publish a statement of our sterling purchases weekly, possibly two or three days after the end of the week to which it refers.

1034. What would be the consequences which you anticipate from more frequent publication?—Well I can give you an example which I think will show what evil consequences might result. In the early stages of purchasing sterling I was as Controller of the Currency giving the Deputy Controller of the Currency in Bombay certain limits up to which he might purchase at each rate; that is to say, I might instruct him that he might purchase up to £250,000 at a certain rate, and when he had purchased that amount at that rate he should raise the rate and inform me. Well on one occasion a speculative Bank surmised the amount of my limit conveyed to the Deputy Controller of Currency, and came in and bought the whole of that £250,000, and the rate was raised. I would point out that I have to give the Deputy Controller of the Currency in Bombay definite authority of this sort because I cannot give him a limit and tell him to stop. He cannot purchase £250,000 at a certain rate and then leave the market hanging in the air while he wires to me for further instructions. I have to decide the amount which I am prepared to purchase in Bombay and give him that limit, and tell him what he may raise the rate as soon as that limit is reached. On this occasion, as I say, this particular Bank realised what my limit was and bought the whole amount and put the rate up. So I say that if you give exact information immediately, that is the day after you have made your purchases, you will encourage speculation.

1035. (*Sir Henry Strakosch.*) I would ask Mr. Denning whether the sale of sterling in India is not a great convenience to the commercial community in India as compared with the tender of Council Bills in London?—Yes, I think so.

1036. You think it would be conducive to improving or facilitating trade in India if sterling were purchased in India?—I think so. I think that fact is rather clearly brought out by considering that most of the tenders for Council Bills are originally sent from the offices of Exchange Banks in India to the Head Offices in London, and that the Head Offices in London merely put in those offers which originally come from India to the Bank of England.

1037. Coming to the practice of selling Council Bills in London and making purchases of sterling in India, your objection to that is, I take it, that you think it would be preferable to have one authority only intervening in the market in the same direction, in fact, to concentrate the sterling demand in one hand?—Exactly.

1038. So as not to interfere in the market, and possibly one authority in reality counteracting the efforts of the others?—Quite.

1039. You would therefore concentrate at one spot, and that spot should be India?—Yes.

1040. I did not quite follow the objection to the system of tenders in India: what is the objection to offering sterling by tender in India somewhat in the same way as Council Bills in London?—I do not think there is any great objection. But, on the whole, I think that the system of purchases of sterling such as is being worked now is easier both for Government and for the public.

1041. Would you not by inviting tenders first of all obviate speculation, and, secondly, inform the public of what amount of sterling is being demanded? Do you assume under that that there would be intermediates between the tenders?—Yes.

1041A. And intermediates would be sold at a fixed rate?—Yes. I do not think that there would be any great objection to a system of that nature.

1042. You would then satisfy the public demand for regular publication. In the light of what would happen if the Imperial Bank were to take over the note issue, and, of course, the duty of maintaining exchange, would you point out what would happen? You would then say that tenders are to be asked merely for Government remittance?—I suppose so.

1043. You mean to say that the Imperial Bank would call for tenders?—Yes.

1044. Supposing the Imperial Bank takes over the note issue and the obligation to maintain the exchange, and also the obligation to remit money to England on behalf of the Government of India?—Then they would be the authority to deal with the exchanges, and they might then offer sterling on tender on behalf of Government?—On behalf of the Government or in order to transfer funds for themselves to London, I do not think there is any great objection to the system, but, on the other hand, I do not quite see why the Imperial Bank should not be allowed to come into the market in order to supply itself with funds in London. I believe there is no other country in the world where a system of tenders of this nature holds.

1045. That is true, but there is no other country that has to make such substantial remittances on behalf of the Government as the Government of India?—Probably not so large, but there are a large number of countries who have remittances to make, and they make them by the Central Bank operating on the market in the ordinary way.

1046. And you would say that as the Imperial Bank would not only be dealers on behalf of the Government but also for private people and companies, it would hardly be right to distinguish between purchasers on behalf of one of their customers or another, the one being the Government and the other private people?—Exactly, I think they would have to arrange their exchange operations so as to satisfy all the requirements, those of Government and those of their constituents.

1047. (*Sir Alexander Murray.*) Do you recognise any difference between remittances made, such as are being made now with a view to keep down exchange and remittances made purely by the Bank or by Government in the ordinary course? Are they equally suitable for tender?—Obviously, you do not want a tender system if you are simply buying sterling at the upper gold point because your rate is fixed; if you are buying an unlimited amount at the upper gold point in order to keep exchange down, the weekly tender is no use to you at all because you simply take all that sellers bring to you.

1048. (*Sir Norcot Warren.*) Mr. Denning, you just said, talking of tenders and the way we do it now, that it is just as easy to buy sterling in Calcutta by tender as it is to sell councils by tender in London. But is it as easy to call for tenders in Calcutta, Madras, Karachi, and Bombay, that is four places?—I think it could be arranged in much the same way as the tenders for reverse councils have been arranged in the past. I admit that there is necessarily a certain amount of delay. As far as I remember, the tenders for reverse councils were received in Madras, Bombay, and Calcutta, and they had to be put in at the various Government offices by 1 o'clock. Owing to the necessity of telegraphing these tenders to one place, and having the results collated there and then re-telegraphing back to the original office of receipt, the result of the sale could not be published till the next morning, that is to say, that after putting in their tenders at 1 o'clock on one day the market were unaware how much was going to be allotted to the market as a whole, and to individuals in particular, till the next morning.

1049. Does not that create a great deal of uncertainty?—I think it does. But I would say that it creates no more uncertainty than a system of tenders in London. In order to put in their tenders in London, the exchange banks I understand have to cable early on the morning of the day fixed for the sale, and they do not hear the results till the next morning, so that the time that elapses between the time at which they have to put in their tenders and the publication of the results is less in the case of tenders in Calcutta than in the case of tenders in London.

1050. Don't you think that objection is an objection to the tender system?—I think it is.

1051. (*Sir Reginald Mant.*) Mr. Denning, you said just now that the tender system is useful when exchange is fluctuating, but not when it is stabilised. Even though exchange may be stabilised in the ordinary sense of the word, there will always periodically be fluctuations between the upper and lower gold points—will there not?—Yes, I imagine so.

1052. There will be a considerable period of fluctuation even with a stabilised exchange?—Yes, between the gold points.

1053. You would agree then, that the tender system is an advantage when exchange is fluctuating between the gold points?—That is rather too general a statement of the case. I said there are advantages in the tender system when exchange is fluctuating and inclined to be weak and Government wish to remit. If exchange is fluctuating and tending to be strong, then I think it is perfectly easy to regulate purchases of sterling so as to let the market up gradually.

1054. But you gave an instance, didn't you, of a rising market?—No, I gave an instance of a weak market.

1055. No, you said you didn't know when to come in—at 1s. 6⅛d., was it not?—I gave as an instance January to March of this year, when exchange was inclined to be weak and to drop below 1s. 6d. It had been strong. We had been purchasing sterling at the end of December at 1s. 6$\frac{5}{32}$d.

1056. Do you say there is no advantage in the tender system when exchange is rising but is still below the upper gold point?—I don't see any advantage in tenders when the trend is definitely upwards; for instance, I think the way in which the remittances have been made since last May, when exchange first went above 1s. 6d. up till now when it is 1s. 6$\frac{3}{16}$d. has given fairly general satisfaction to everybody concerned. I do not see how the supplementing of purchases of sterling in such circumstances by an offer of councils would have offered any advantage at all.

1057. You could not have got better rates at times?—I think that is very unlikely. I distinctly remember instances when the rates at which council bills were allotted by the Secretary of State were distinctly below the rate at which I could have purchased on the very same day in Calcutta.

1058. (*Mr. Preston.*) Mr. Denning, would not the present system if kept in force rather give the Imperial Bank an undue advantage when they were dealing in exchange on their own behalf if before a rise or fall in the bank rate as they alone knew what was going to come along?—I do not quite follow.

1058A. Let me straighten it out. Supposing next week the Imperial Bank were going to drop their bank rate from 8 to 6 per cent. Exchange naturally would become weak. Now they alone would have that knowledge as against the market and by the present system they could operate to the disadvantage of the market. Would not that be correct?—They would operate, but would it necessarily be against the market?

1059. Well, they might be operating on their own account. It might be even to the disadvantage of Government?—But you must assume that the powers of the Imperial Bank will be limited, as I state in my memorandum. I say that their powers of dealing with the public should be nil, except in so far as they have to make remittances for their own constituents.

1060. (*Chairman.*) Let me develop that, Mr. Preston, with one or two leading questions, and then perhaps we will get the whole matter fully elucidated

as we are now on this point of the Imperial Bank and remittances. Have you any further questions to ask, Sir Reginald?

1061. (*Sir Reginald Mant.*) Yes, I hadn't quite finished. Mr. Denning, you recognise that there are certain disadvantages in the system of purchases of sterling. You gave one instance in which there was undesirable speculation?—That, I say, was because a certain banker made a surmise. I admit that I was inexperienced at the time. I took steps later to prevent similar speculation by varying the amount of my limit.

1062. Have you had no complaints otherwise of certain parties being favoured as against others in purchases of sterling?—I have had no complaints.

1063. The Bombay Chamber of Commerce, for instance, have made a reference to it in their memorandum.* They say "Their Committee are strongly of opinion that Government remittances should be effected by means of public tender, either in London or in India, rather than by private purchases of sterling as the former method is more equitable and promotes a greater feeling of confidence in the minds of the public"?—I do not see how it is more equitable.

1064. Well, I presume they mean that the amounts will be published and everyone will be at liberty to tender?—But everybody is at liberty to sell sterling through any broker or direct to the Imperial Bank.

1065. They don't know how much you are trying to buy. I am only trying to elucidate what they mean?—Quite; I don't see anything in that point.

1066. They say it will create a greater feeling of confidence in the minds of the public?—I don't see quite how it is going to create a greater feeling of confidence with the public. As far as I know, there have been no complaints against the system of purchasing sterling this year.

1067. Of course, we shall have to clear up this subject with the Bombay Chamber, but I wanted to know whether, from your experience, you could throw any light on it?—While I think there have at times been speculation, but the purchases are now so regulated that speculation is practically impossible.

1068. (*Sir Alexander Murray.*) Mr. Denning, with reference to the position indicated by Mr. Preston, where the Imperial Bank, acting on inside information of a likely rise in the bank rate might operate in exchange taking advantage of their position under the present system, if the Imperial Bank were prepared to act upon inside information under present conditions, would they not be prepared equally to act under a public tender system?—Not quite equally.

1069. Why?—Because they would have to announce the amount; that is usually done under the present system; they would announce the amount for which they were asking for tenders and the public would have some indication of the extent of their operations. I admit that so far as the rate is concerned there will be no difference.

1070. (*Chairman.*) I understand you to mean that, under the tender system, if the Imperial Bank were to act in this manner its operations would become more obvious to the public eye?—Yes, I think so.

1071. Some of the supplementary questions referred to the state of affairs which would prevail supposing the Imperial Bank were to take over the remittance business of the Government. Will you tell us generally what are the relative advantages and disadvantages of such a change?—I think that question is mixed up very closely with the control of the note issue. It is rather difficult to answer the question without considering the advantages of transferring the note issue.

1072. Would it enable you to answer if you were definitely to assume that the note issue were transferred?—Assuming that the note issue were transferred to the Imperial Bank, I think that it is almost inevitable that the control of the remittances should be transferred at the same time. If the Government are remitting independently, their remittance policy might come right up against the money policy of the Imperial Bank, and the remittance operations of the Government are so large that they might nullify the action taken by the Imperial Bank in pursuance of its policy. Another point is that Government would not have the same facilities for remittance directly. At present part of their remittances are made on behalf of the paper currency reserve. If the paper currency reserve is handed over to the Imperial Bank such remittances must cease. If Government retain the gold standard reserve, that might possibly be used to some extent, but the greater part of the Government remittances would have to be met from the Treasury balances, and it would not be possible to arrange remittances so conveniently as it is possible to do now.

1073. Supposing the transfer of this business were to be made to the Imperial Bank, what is the nature of the agreement which you would suggest between the Government and the Imperial Bank under which the bank would transact the business for the Government?—The bank should, I think, undertake the obligation to supply the Secretary of State with funds as required in London against payment in India in rupees; and assuming that the Imperial Bank is responsible for the maintenance of exchange, either directly or by the influence of its discount rate, I think that it ought to be laid down definitely that Government would never borrow in London merely in order to lessen its demands on the Imperial Bank. It might want to borrow in London because it could not obtain sufficient funds in India to meet capital requirements, but that would be the sole criterion for borrowing in London. Except in so far as the Secretary of State met his requirements by borrowing in London upon those lines, the Imperial Bank should undertake the obligation to supply all funds required.

1074. Supposing that such a definite obligation were undertaken by the Imperial Bank under the suggested agreement, do you consider the arrangement would be open to criticism on the ground that it gave a preference to Government over the public in the market at times of great pressure for sterling?—I do not quite see why it should.

1075. To put it roughly, when there is not enough to go round the bank would be under the obligation to give the Government all that there was and the public would have none?—I think the Imperial Bank would always have to supply the sterling required, both by Government and their constituents, even if they had to borrow temporarily in London to do so.

1076. Finally, to complete the picture, assuming that this arrangement had been made, what essential limitations upon the capacities of the bank to transact business in exchange would you suggest?—I suggest that they should not be allowed to deal direct with the trading public at all, but should be permitted to buy and sell in India from the exchange banks and possibly a few firms which have always tendered for councils, and that the banks and firms from which the Imperial Bank might buy should be put on a list which would have to be approved by Government, that is, their buying and selling would be limited to buying and selling from certain banks and firms on the list approved by Government. In addition, they should be allowed to make remittances to London for their constituents for *bona fide* purposes as they are doing now, and there might be a further limitation that the amount that they should buy and sell in any one transaction with an exchange bank or a firm should not be less than £10,000. Further, I think that the operations of the London office of the Imperial Bank should be limited strictly to remittances for *bona fide* constituents.

1077. That is the tale of restrictions?—I think that is the tale of restrictions.

1078. (*Mr. Preston.*) I would just like, with reference to my previous question, to put this: that if public tenders were adopted, would not that once for all remove all and every difficulty of Government

* App. 16.

getting all weekly requirements in the market? The point was raised when the statement was made that there might have been a possibility, where the bank was operating for Government, the bank might give all their purchases of sterling to the Government and the market get none?—I do not think the market was intended. I tried to make that clear. I thought that the constituents of the bank were intended.

1079. (*Chairman.*) And perhaps you should also regard it from the point of view of the market as Mr. Preston suggests?—Can that possibly arise?

1080. (*Mr. Preston.*) If you make the tender public you undertake to buy a certain amount of sterling. The Imperial Bank operating as they do at present might buy your requirements, and then they might conceivably say for the remainder of the week to the market, "I am not buying further"?—Yes, but during the period when the Imperial Bank is buying anybody has a right to sell to them.

1081. Granted, but markets change from morning till afternoon; Monday and Tuesday there may be no move in the market; during the balance portion of the week there may be heavy movements?—Quite, but assuming that you had a weekly tender various exchange banks and firms might put in for tenders on Tuesday, and the market might be absolutely different on Friday.

1082. What I would say is that if you have a public tender for a weekly amount the market always gets its portions of that amount at the average rate?—Provided it overbids the other man.

1083. Exactly, but still the market knows that there is, say, a crore of rupees or a million pounds put up, and that provided they bid the rate they will get their proportion of the tender or the whole of it?—That is true.

1084. (*Sir Henry Strakosch.*) May I ask Mr. Denning with regard to the question that has been raised regarding the advantage that might accrue to the Imperial Bank in the exchange market because it is in possession of the knowledge as to its own bank rate policy, on the supposition that the Imperial Bank becomes the note issuing authority with the obligation to maintain the exchange value of the rupee, would you agree that it is a perfectly legitimate thing for the Imperial Bank to use the only legitimate weapons there are to maintain the external value of the rupee, namely, the bank rate, and direct intervention in the exchange market?—Yes, I think it would be legitimate.

1085. Not only legitimate, but absolutely essential to its functions?—At certain times essential.

1086. Now if it is essential to its functions to operate in the exchange market, is it not logical that the Imperial Bank should have the utmost freedom in its dealings in exchange?—I would say the utmost freedom provided that it is not allowed to compete unfairly with the exchange banks.

1087. Yes, but is it not conceivable that the policy of the exchange banks may be running counter to the policy of the Imperial Bank? The Imperial Bank may think it necessary to contract credit in order to appreciate the rupee, and the exchange banks may be of a different view. Whose view is to prevail, and whose duty is it to carry into effect the policy; obviously the Imperial Bank?—I should like to think out this point a little more, because you are in effect, I understand, suggesting that the Imperial Bank should be allowed to deal directly with the trading public.

1088. Well, what I suggest is that the Imperial Bank if it acts as the Banker's Bank would in the ordinary course of its business not deal with the public except with its customers, who will be the banking institutions of the country; but I would not by statute debar them from dealing if they think fit, and if in their view it is essential that exchange should take a certain course?—I think that might have advantages, but I should like to think it out more, because I have never contemplated such an arrangement.

1089. (*Chairman.*) The question, I suppose, to which Mr. Denning would direct his attention is whether the Imperial Bank would discharge its essential functions as regards the control of exchange within those limits as to trading and exchange which Mr. Denning has specified?—I think on the whole that it would be able to exercise its functions adequately.

1089A. (*Sir Henry Strakosch.*) With the limitations you put?—Yes, I would say that in effect the limitations placed on the Imperial Bank are the limitations already placed on Government operations. At present Government purchases only from exchange banks and certain firms and Government does exercise its functions of controlling the exchange without dealing direct with the trading public. I do not see any reason at present why the Imperial Bank should not do the same.

1090. Then one other point regarding the agreement between the Government and the Imperial Bank with regard to the supply of sterling remittances to the Government. Would it not be the Imperial Banks' duty, having entered into the agreement, and having undertaken the obligation to supply the Government with exchange first and the public after, therefore to give the Government as compared with the public the advantage which accrues to anyone who is first in the market?—I am not sure that the question would arise as to whether the Government should be given sterling in London or the Bank's constituents. I think in practice the bank would have to arrange to supply both. If it had temporarily not been able to remit enough from India for that purpose, I think it would have to borrow the money in London in order to meet its sterling obligations.

1091. My question then is, why make an agreement, because the Imperial Bank under its statute would be obliged to keep the exchange value of the rupee between the two gold points?—Yes.

1092. It therefore has to supply any demand for sterling within those points by statute?—Why is it necessary then to say that it must supply the Government with the whole of its requirements?—It is necessary because if you treat Government as an ordinary constituent of the Bank, in its capacity as a consituent it has to enter into some contract with the Bank as to the supply of funds, and the contract would be that the Bank must supply all the funds required. If there is no obligation to that effect there is nothing to prevent the Imperial Bank saying to the Secretary of State when he asks for a million pounds or two million pounds, "it is not convenient for us to supply it now."

1093. The Imperial Bank, I take it, would act on behalf of the Government of India merely as agents and the Imperial Bank would buy whatever exchange there is to be got and at the same time being obliged to give sterling at the gold point, the Government can never be in danger unless the Imperial Bank fails to comply with the provisions of the statute?—I think that you must have something down in the agreement that the Imperial Bank will supply all the demands which the Secretary of State makes in sterling on payment by the Government of India of the equivalent amount in rupees in India. That is undertaking a definite piece of business for a constituent, the constituent being Government, and unless there is an agreement between the Bank and the Government, I do not see why the Imperial Bank should not refuse to put through any particular transaction of that sort at a given moment.

1094. But then all the other banks are there to supply the Government?—Yes, presumably they are. But the time the Imperial Bank would choose to refuse would probably be a time when it would be

extraordinarily difficult for the Government to put the transaction through any other banks.

1095. If they refuse they have broken one of the essential conditions of their statute which provides that the Imperial Bank has to sell sterling at one point and buy it at another.—I do not see that the conditions of their statute would necessarily be broken. Supposing exchange is at par, midway between the gold points; the statute imposes upon them no obligation to buy or sell; they could simply keep out of the market. On the other hand Government wants certain funds in London, and must get those funds either by direct remittances themselves or by remittances through a Bank. I say that there should be a definite obligation by the Imperial Bank to supply those funds when required, and I think that obligation must be incorporated in an agreement between the Bank and the Government.

1096. (*Sir Reginald Mant.*) Mr. Denning, at what rates do you contemplate the Bank should undertake to supply remittances for Government? Would you take an average rate?—I think on the whole the best rate would be the average rate for the month preceding the date of drawing by the Secretary of State from the Bank.

1097. And the Bank would then be under an obligation to supply any amount required by Government at the average rate of the preceding month?—Yes; I predicate that the Secretary of State would give the Imperial Bank an estimate well in advance of the amount of his probable requirements and would state definitely a month in advance the amount of his drawings. If he were drawing in August, he would have to give on the first of July notice to the Bank of the amount which he was going to draw in August so that the Bank would have the time to make the necessary arrangements and the Secretary of State would be definitely bound to take that amount. He could not suddenly say "I do not want so much. I will take a little less". He would have to take that amount, and in the present circumstances transfer tho balance to the Bank of England.

1098. As you know under the present arrangement under which the balances out here carry no interest and the Secretary of State gets interest on his balances in London, it often suits him as an economical arrangement to make large remittances from the balances here to his balance in London at a period when exchange is strong and it also suits him to get a large portion of his annual requirements in advance when the exchange is strong?—Yes.

1099. Do you contemplate that arrangements of that kind would continue under the new arrangement?—No; I think there are two separate points in your question; one is the question of levelling out the balances in India and the second is the question of the rate at which Government will obtain its sterling. As regards the regulation of balances in India, I think it is possible to achieve much the same results as we are achieving now by issuing treasury bills for short periods which would carry us over the times when our expenditure tends to exceed our revenue.

1100. Treasury Bills in India?—Treasury Bills in India. They would probably never be outstanding for more than six months. It is possible by regulating treasury bill issues to produce a practically even balance in India all the year round. We would have lower balances on the whole too. As regards the rate of exchange I agree that Government might not obtain their remittances, and probably would not obtain their remittances at so favourable a rate. The tendency now is for the Government to remit in the busy season when exchange is strong, lend that money out on the London market until the slack season when it is required and exchange is weak, and it is not desirable to remit; so that on the whole the average rate obtained by Government for remittances is a high one. Under the system I propose, the rate obtained by Government would be approximately the rate prevailing for the time being, that is to say, it would be the average of the rate prevailing throughout the year and the effect would be that the gains by Government on exchange would be less. The amount that Government lost would go to the Imperial Bank, if they arrange the remittances upon the same basis that we arrange now and that could be regarded as remuneration to the Bank for the business they had undertaken on behalf of Government.

1101. But do you contemplate that the Secretary of State should not in future be entitled to anticipate his requirements?—I contemplate that he should only draw as required for current expenditure.

1102. (*Sir Purshotamdas Thakurdas.*) Would the responsibility for maintenance of exchange which you propose should be put on the Imperial Bank entail any risk at all of loss on the Imperial Bank?—I do not think so.

1103. You don't think that the Imperial Bank rnns the risk of any loss by honest errors of judgment by the people who may be operating on their behalf?—That is possible.

1104. You have already said that the amounts which have to be remitted from India by Government are colossal and have no parallel in any other part of the world?—I think so, yes.

1105. Do you know of any Central Bank with power to issue its own notes replacing Government currency notes having such liability for maintenance of exchange put on to it?—No, I do not think I do.

1106. The proposal here is that the Government notes should be withdrawn and should be substituted by the Imperial Bank currency notes. The Imperial Bank is a commercial institution and side by side with the other risks of loss which they incur in their ordinary course of business, one more source of possible loss due to honest errors of judgment is being added on to it.—Yes, I agree that the larger the functions of the Bank the greater the possibility of loss from mismanagement; but on the other hand the larger the functions of the Bank also presumably the greater the gains, and I am, as I have pointed out just now, presuming that the Bank will, on the whole, gain by their exchange operations.

1107. They may or may not?—Well, I think almost certainly they will.

1108. You mean there is no room for an honest error of judgment which in exchange operations may land them in losses?—I did not say that. By an error of judgment it is possible there may be a loss—but an error of judgment is really mismanagement for the time being.

1109. I then wanted, Mr. Denning, to ask you, knowing India as you do, where rumours are very liable to exaggeration, whether the note issue of the Bank may not suffer under some peculiar circumstances owing to rumours of loss by the Imperial Bank? Do you consider that this liability should be put on the Imperial Bank?—I think the contingency is remote. I see no reason to believe that the losses incurred by the Imperial Bank on their exchange operations would be known to the public.

1110. You are going on that presumption. But, if they happen to be known to the public through the exchange banks or through other sources which are well up in the exchange operations, would you consider that a risk to be avoided?—I do not consider it a serious risk.

1111. You have said in paragraph 8 I think in your memorandum on the gold standard exchange that the ideal that is to be aimed at is the system in force in England?—Yes.

1112. What difficulty is there in acting up to that ideal in India?

1113. (*Chairman.*) We are getting rather in advance of the examination in connection with this point.

1114. (*Sir Purshotamdas Thakurdas.*) No, Sir, it is just in connection with the liabilities put on the

Imperial Bank. I am restricting myself strictly to that. You set out your ideal there. What objection is there to aiming at that ideal being achieved as far as the Imperial Bank is concerned?—That ideal necessitates a complete change of the currency system. That really is covered to a large extent by my memorandum and is a big subject rather disconnected from the risk incurred by the Imperial Bank.

1115. I was coming to that. I was wondering whether what you mention in the next stage—the legal tender of metallic currency being dispensed with in India, would you consider it advisable not to saddle the Imperial Bank with this liability by remitting money to England?—No, I don't see any objection to putting this responsibility on the Imperial Bank.

1116. It is indispensable for Government to insist on their being responsible for remittances on behalf of the Government of India to the Secretary of State?—I don't think it is absolutely indispensable.

1117. It could be dispensed with?—I think it is quite possible to imagine the Government making its remittances direct. But I do say that that would lead to clashes between the policy of Government in making remittances and the policy of the Imperial Bank.

1118. (*Chairman.*) That was your previous answer.

1119. (*Sir Henry Strakosch.*) I should like to ask some supplementary questions with regard to the points raised by the previous speaker: they seem to me rather important. The question has been asked whether there is any central bank in existence which has the right of note issue and which at the same time has undertaken the obligation to maintain the exchange value of its money. The answer was "no."—Yes, Sir.

1120. May I remind Mr. Denning that Germany, Austria, Hungary, Holland, Switzerland—the national banks of these countries are in that position and also the Bank of England by its obligation to sell gold at a given figure?—Yes, I am afraid that I understood Sir Purshotamdas's question to mean to maintain the stability of the currency under a gold exchange standard. That does not apply to the Bank of England. I am not quite sure how far it applies to the others.

1121. Now, then, the question was raised whether the encashment of the notes may not be endangered by possible losses which the Imperial Bank may suffer through having undertaken to maintain the stability of money, the exchange value of money. Is it not a fact, that if the Imperial Bank has under its control the whole machinery of currency management, it is in a position to maintain the purchasing power of its money stable, just as the Government of India has kept it stable—with the exception of catastrophes such as war. Is that so?—Yes, I think so, provided it has the necesary reserves.

1122. Would it be correct to say that in theory as well as in practice the Imperial Bank, provided it keeps its money stable, cannot make any loss because it will buy at the lower gold point and sell at the higher gold point, which means in other words that the Imperial Bank must make a profit?—Yes, I think that was a point I made. But Sir Purshotamdas was asking about a possible loss due to an honest mistake of judgment and those losses would probably occur. But, generally speaking, if the business were properly run I agree that they must make money over it.

1123. Therefore, is it correct to say that the Imperial Bank cannot make any losses on exchange dealings, but if it does make losses, it makes them because of incompetence of its officials or the failure of some of its customers to fulfil their obligations. It is really loss on credit, not loss on exchange dealings?—I think that there might be losses on exchange dealings.

1124. How? Let me put it this way; because that will eliminate frills. The bank is obliged to buy at a given point and sell at a given point. There is a margin of let us say one per cent. The bank buys at the cheapest rate and sells at the highest rate—by statute?—Yes, but its operations are not confined to that. If it only buys at the highest rate it would probably not buy sufficient in the course of the year to meet the sterling requirements of Government. It has to sell in addition to buying to maintain the stability of the rupee—it has to buy in order to supply the Secretary of State with funds. And in those buying operations it might lose—it might possibly buy at a low rate and have to supply the Secretary of State at a higher rate, if it did not manage its business properly.

1125. But if it buys on commission, as I suggested before, on behalf of the Government of India, it would never lose?—No, if it buys on commission, it would not lose.

1126. Therefore, the contract which Government proposes to enter into with the Imperial Bank might land it in a loss through the fact that it would have to supply exchange at the average rate of the month. That is what you have in mind?—I only say it might land the bank in loss if the exchange operations of the Bank were mismanaged. I say that normally the Imperial Bank would remit when exchange was strong and keep out of the market when exchange was weak.

1127. And would you consider that these losses might endanger the convertibility of the notes of the bank? Could the loss be so formidable?—No, I don't think so.

1128. (*Sir Purshotamdas Thakurdas.*) I said "exaggerated by rumour." I did not suggest that the losses by themselves might endanger.

1129. (*Chairman.*) We will put it as a question to the witness. Do you see any possibility of serious danger in the exaggeration by rumour of such a loss on the part of the bank?—No, I don't see it.

1130. (*Sir Henry Strakosch.*) Is it not a fact that almost every central bank is in the habit of publishing weekly its returns and showing weekly the amount of foreign currencies it holds in its issue departments? Does not, therefore, the public know exactly the state of the bank's position in regard to the holdings of foreign exchange?—Yes, I think the public would.

1131. Therefore, there cannot be, except in the interval between one return and the other return, any misconceptions as to the position of the bank?—I am not quite sure. I do think you mean quite the same as Sir Purshotamdas even now. What I think Sir Purshotamdas means is this. The bank incurs an exchange loss. The rumour gets round the bazaar that the bank has lost a large amount of money. This rumour proceeds all over the country, and in the course of proceeding all over the country the amount of money which the Imperial Bank is supposed to have lost is grossly exaggerated. People up-country say to themselves: The Imperial Bank has made a loss, so many lakhs or so many crores. We are not sure of the soundness of this bank in view of this loss. We will go and present our notes and get metal. I think that is what Sir Purshotamdas means. Well, I say the risk of anything of that sort happening on account of an exchange loss by the Imperial Bank is exceedingly remote.

1132. (*Chairman.*) And the reserves are there to meet it. May I put it in this way. Might it not be the case that the same circle that is likely to be affected by a rumour as to exchange loss on the part of the bank would be approximately the same circle as would acquaint itself with the weekly published returns, so that the remedy might be available where the disease might be caught?—Well, I am not quite sure that that is correct, because rumours grow in the bazaar and the ordinary inhabitant of the bazaar is not accustomed to reading the statements of the Imperial Bank.

1133. We have it now that in your opinion there would be a possibility of some loss on the part of the

bank in the conduct of these remittance transactions. Does not a precisely equal risk attach to their present operations conducted on behalf of Government?—No, because they act merely as the agents of the Government.

1134. I beg your pardon. Is the Government itself not liable to a precisely equal risk in view of the operations that are transacted in its behalf?—Well, it is not so much a risk of loss as a failure to realise a gain, I think.

1135. Is there any difference in the case of the bank under the proposed arrangement and the case of the Government under the present arrangement?—No, none.

1136. What is the actual experience as regards the realisation of a loss in this respect, or, as you have put it, a failure to realise a gain?—The actual experience of Government has been in normal years a very considerable gain by its exchange operations.

1137. Is there any experience of a loss in recent years under modern conditions?—I don't remember one. But I should have to look that up. I don't think there has been one.

1138. We must take it then that the normal experience has been that there has been a gain?—The normal experience has been a gain undoubtedly.

1139. This might perhaps be looked upon as casting some light upon what the prospects of the bank would be of making a loss or realising a gain under the new arrangement?—Certainly.

1140. (*Sir Alexander Murray.*) Do I understand this proposed agreement to be entered into between the Government and the Bank will be one under which the Government will make certain it gets the average rate for a month or year for its remittances, leaving it to the Bank to make profits or losses as may happen. In other words, they are to have a certainty on their side, leaving the Bank with uncertainty on its side?—No, Government is not to have a certainty. I say that the funds drawn in any one month will be drawn at the average rate of exchange of the previous month. So, in effect, the rate at which Government will draw will follow the fluctuations of exchange.

1141. In the past, Government used its discretion in its exchange policy and sometimes found it desirable to sit out of the market altogether for weeks and months on end. If a question arises of the Imperial Bank in the exercise of its discretion wishing to do the same thing, who is to decide whether they are right or wrong?—They would have to decide, as they would be in control of exchange and the remittance operations generally.

1142. And Government then will just have to take the remittances as the Imperial Bank chose to give it to them?—Oh, no; Government would draw what it required each month. It would not inquire when the Imperial Bank remitted those particular amounts. The Imperial Bank would remit them when they liked but it would have to pay them as required.

1143. For all types of expenditure—revenue and capital expenditure—in London?—Yes.

1144. (*Sir Henry Strakosch.*) Therefore, if I may continue, the Imperial Bank under such an arrangement stands to make losses because it may buy at a point which makes the cost to it higher than the average of the month?—Yes, but I think we have touched that point before, and I say, if they manage their business properly, there would be, judging from the experience of Government, a very considerable gain. Before the War the differences between the rates at which Government remitted and 1s. 4d. were taken to the head "Gain by exchange." In every year there was a fairly large credit to this head.

1145. But would it not mean that the bank would have to speculate as to what the average of the month is going to be? They have to sell to Government at the average of the month. Therefore, unless they hit the right figure and buy at a figure in the market which will afterwards turn out to be the average, to that extent the bank is speculating?—I think I must explain a little more clearly how I imagine the bank would conduct their operations throughout the year. I imagine that the bank would conduct their operations throughout the year in much the same way as Government conduct their operations now. In the busy seasons when exchange is strong, Government normally remit large amounts. They may remit a portion of that amount through tho paper currency reserve and create currency against it. I imagine the Imperial Bank would have to do the same thing to some extent. To a certain extent also they remit and keep it in their Treasury balances in London in the form of Treasury Bills. Well, it would be for the Imperial Bank to decide whether it paid them and I think it would pay them to remit amounts in excess of their immediate requirements during the busy season when exchange was strong, and keep it in London in the form of Treasury Bills which might or might not be placed in their currency reserve. It would probably pay the Imperial Bank in the same way as it has paid Government to make most of its remittances at periods when exchange was strong and to keep the money so remitted in one form or another in London until required for meeting the Secretary of State's demands. If they arrange their operations in this way there would be a considerable gain by exchange over the whole year.

1146. (*Mr. Preston.*) Mr. Denning, with reference to your last remark, in Appendix XI to your memorandum giving the history of the Indian currency system, at the end, the sterling purchases in thousands are given:—

On the 8th October, 1924 ...	2 million sterling.
On the 9th October	£1,920,000
On the 29th December ...	£2,220,000
On the 6th June	£1,330,000
On the 24th June	£1,315,000
and then again, given lower down,	
On the 29th August, 1925 ...	£2,290,000
On the 14th September ...	£1,080,000

1147. Would it be a fair question and would it be right to assume that these represented Government transactions?—These are the sterling purchases on behalf of Government. They don't include anything else.

1148. It was no operation on the other part of Government? These are purely commercial transactions?—The remittances were actually made.

1149. Just so; but they did not represent transactions of yours on the other side of the book in any way?—You mean I was not selling sterling on the other side?—No, I was not.

1150. That was a purely market transaction?—Yes.

1151. (*Chairman.*) In other words, it was not a flutter.

1152. (*Sir Alexander Murray.*) Mr. Denning, you said that in pre-war days the Government always made a profit on the basis of exchange at 1s. 4d. Admitting that it did, it does not follow that the Imperial Bank is going to make a profit because the profit is going to be made on the average remittances of the preceding month, not on the average rate of 1s. 4d.—No, but let me take a case in point. We will go back to last year.

1153. You said that previous to 1914 the Government of India always made a profit on their budget rate through their exchange transactions and therefore there was no reason why the Imperial Bank should not do the same. Then, you proceeded to say that the Government took the budget rate at 1s. 4d. and always made a profit on it. I quite believe it because the average rate was usually above 1s. 4d. But that is a different matter entirely from suggesting that Government will take their average rate

for remittances at the average of the preceding month and leave it to the Imperial Bank to make a profit or a loss.—I don't say it is exactly the same thing. But I say there will be still very considerable gains by exchange on the bank operations, taking the whole year together.

1154. (*Chairman.*) Then, Mr. Denning, I should like now to turn to another topic, that is, the problem of stabilisation. I should like to ask you in the first place whether, in your judgment, there are any factors still uncertain in the general world position of a sort to make it prudent to await their determination before fixing the rate of exchange for the rupee?—No, I think there are no uncertain factors of such importance as to justify the postponement of the stabilisation.

1155. Are there any factors of any importance?—Well, there are such uncertain factors as the fate of the franc, the settlement of the inter-allied debts, which might exert a very distinct influence over general financial conditions throughout the world. But when England, practically the whole of the Empire and the greater part of Europe have decided on stabilisation, it seems to me that there is reason to believe on general grounds that there are no serious factors which India ought to regard as of sufficient importance to postpone stabilisation.

1156. What importance do you attach in this connection to the circumstance that there is a large amount of gold in the United States and that there may be a possible change in the monetary policy in the United States?—I think it is possible that the gold in the United States might be so used as to produce a very considerable rise in gold prices. But I do not see any particular reason to suppose that the Federal Reserve Bank will change its present policy of sterilizing a portion of its excess gold.

1157. Can we take it then that you are definitely of opinion that the present is a favourable moment at which to undertake stabilization?—Yes.

1158. And that there is nothing to be gained in comparison with the advantages of stabilization by waiting?—No, nothing I think.

1159. In this connection, apart from the question of index numbers which has already been considered by the Commission in some detail, can you indicate to us any data to show how far prices and wages in India have adjusted themselves to the present level of exchange?—I do not think I can indicate any reliable data except price indices which you have already considered. Statistics of that nature are rather scarce.

1160. Assuming that the rupee should be stabilized, let me ask in the first place if a rate other than the present rate approximately 1s. 6d. were adopted for stabilization whether you can give us a general idea of the magnitude of the difficulties that might be encountered in working (*a*) to a higher ratio (for the purposes of discussion we might take it at 1s. 8d.) or (*b*) to a lower ratio (taking there for the purpose of discussion 1s. 4d.)?—The process of working to a higher rate would in the first place involve a considerable contraction of currency. That might lead to considerable internal difficulties and the failure of a certain number of businesses. In the second place it would probably necessitate Government keeping out of the exchange market, drawing on their sterling reserves and possibly sterling borrowing. In the third place the rise to 1s. 8d. would I think take a considerable time. The contraction of the currency would take some little time to effect and even if Government kept out of the market, it would probably take some time to raise exchange permanently to the new level of 1s. 8d. During this period exchange would be liable to very considerable fluctuations, fluctuations which Government might to some extent temper by going into the market. Then you would have presumably a general fall in prices. During the period of appreciating exchange, undoubtedly the industries of India would suffer very considerably, although in the end when the necessary adjustments have been made, the effects might not be appreciable. During the period of appreciating exchange also it is probable that the producer would suffer, but again I think that would be only during the period of appreciation and when things had adjusted themselves it would make comparatively little difference. That is all I have to say about the question of raising exchange, I think. As regards lowering exchange I think that within a very short time after Government declared that they were aiming at a lower rate say 1s. 4d., the exchange would go down to that rate. In fact I think there would be a very sudden drop. That sudden drop would be followed by a reaction.

1161. Would you expect the fall to go below 1s. 4d.?—I do not think so,—followed by a reaction in which Government would have to come in and purchase sterling to keep the rate down to the 1s. 4d. point, and the amount they might have to increase the currency would probably be very large.

1162. The reaction would come, I take it, from the apparent cheapness of the rupee creating an abnormal demand?—The reaction would come I think partly because speculators who had remitted between 1s. 6d. and 1s. 4d. would bring their money back to India when the 1s. 4d. rate was reached. A large increase in the currency would almost inevitably mean a larger rise in prices and a general adjustment of wages and salaries, but after the period of adjustment is over there is no reason to suppose that any interest in India would be very seriously affected by the change from 1s. 6d. to 1s. 4d. Certain interests would because they would probably not be able to obtain remuneration equivalent to the rise in prices, in particular the people on fixed salaries.

1163. Do these considerations lead you to any conclusion as to the advisability of choosing a rate different from that which at present prevails?—I think it is inadvisable to make any change in the present rate because I see no sufficient reason for putting India generally through the process of adjustment which would be involved by a change either way.

1164. Your preference for the present rate is based therefore rather on the negative basis of the avoidance of the evils of any other course?—Yes, exactly.

1165. Rather than on anything that is inherently desirable in an 18d. rate as compared with any other figure?—Quite. I have no special predilection for that particular figure.

1166. (*Sir Norcot Warren.*) If the rate was fixed at 1s. 4d., would there, in your opinion, be a sudden drop from the 1s. 6d.?—I think so, right at once, within a very short time.

1167. Why do you think that?—Because there is a considerable amount of latent remittance in India which would come forward at once and I think the speculator would say, "This is an extraordinarily good thing, let us get to England all the money we can before the rate actually goes." The more the speculators come in, the quicker the rate would go.

1168. (*Sir Reginald Mant.*) Mr. Denning, with regard to the 1s. 6d. rate is there any particular advantage in having the rate fixed in a round number of pence?—Well, you want either a rate fixed in a round number of pence or an even number of rupees to the sovereign.

1169. Would not the latter be preferable?—I do not see that it makes much difference. The latter has this disadvantage that the method of quoting the rupee sterling exchange would have to be changed.

1170. But supposing the sovereign becomes current in India; 1s. 6d. means that you would get Rs. 13 and one-third rupees to the pound.—I agree it makes it almost impossible to have the sovereign in circulation.

1171. Well, would it be possible to get any figure in that neighbourhood that it would be more convenient to enable the sovereign to circulate?—If it was Rs. 13 to the pound it would not be very far away and that would enable the sovereign to circulate.

1172. Would not that be inconvenient for accounts purposes, the figure of Rs. 13 to the pound?—Is it much more difficult to deal with than a figure of 15? I do not think so.

1173. It was thought so. With 15 you could convert crores into millions very simply?—Yes, I admit that, but you can convert crores into millions comparatively simply at a 1s. 6d. rate.

1174. Yes, you can at 1s. 6d., but it has the objection you pointed out that you could not change the sovereign?—Possibly 13 is not a very convenient figure, but I do not think it is a very serious matter. I do not think the inconvenience of a particular figure for accounting purposes should really have very much influence in determining tho rate at which the rupee should be stabilised.

1175. Do you consider the question of changing sovereigns as of more practical importance?—I do not consider that of importance either.

1176. Assuming that the sovereign does not circulate?—I do not think that makes very much difference. If a gold coinage is wanted in India, gold coinage of so many rupees could easily be minted.

1177. Well, you are assuming that the sovereign would not circulate; but if you had a gold currency the rate of 1s. 6d. would make it necessary to have a special gold coin in India?—I think it would necessitate that, yes.

1178. (*Chairman.*) Passing away from the question of stabilisation, I have first of all to ask you one or two questions in connection with the proposed transfer of the management and control of the paper currency to the Bank. A question peculiarly applicable to you as Controller of Currency is, would the notes by the Bank be likely to be accepted by the public with the same confidence as Government notes?—Yes, I think so. There may possibly at the start be a little hesitation, but the process of substitution would be gradual and I think before the process had got very far there would be no hestitation in accepting an Imperial Bank note as readily as a Government of India note. I think the amount of hestitation might be similar to the amount of hestitation when Government changes the pattern of a note.

1179. Does the experience of the past show that is any hindrance to the note issue?—No serious hindrance.

1180. On the question of the note issue and its acceptability, it may perhaps be a convenient moment to ask you the following question which relates to the scope for the further popularisation of notes. Is there any such scope to be found in raising the limit of universality of notes and could this be done without any great strain on your resources?—I do not think that raising the limit of universality of notes would have any material effect on the popularity of the note issue. Notes of Rs. 500 and over have a very small circulation.

1181. On the other hand, it represents in proportion a very large amount in the economisation of currency compared to small notes. To get one ten-thousand rupee note into circulation is more economical than to get ten thousand one-rupee notes into circulation?—The circulation of notes of Rs. 500 and over is comparatively small, and their circulation is limited to business centres and towns. In those business centres and towns there is no real preference exhibited for metal. In fact, I doubt if there is much scope for increasing the popularity of the note issue in the business centres and towns. Where there is scope for increasing the popularity of the note issue is in the rural districts and particularly in the more backward tracts and in the frontier districts. I do not see how the universality of the Rs. 500 note will affect that in the least.

1182. Your last answer suggests the question as to what in your view is the true policy as regards the issue of the one-rupee note?—Well, my personal opinion is that the issue of the one-rupee note should be resumed.

1183. For the sake of our record, will you tell us the circurstances under which the issue was discontinued?—The circumstances under which it was discontinued were that the Inchcape Committee recommended as a measure of retrenchment that the question of the cost of issue of one-rupee notes should be examined with a view to discovering whether any saving could be made by abolishing the one-rupee note. As a result of this recommendation the question was examined. It was found extremely difficult to frame any very accurate estimate of the cost of keeping a certain number of rupee notes continually in circulation as against the cost of keeping the same number of rupees continually in circulation. In fact, I believe that the result of the calculations was that the cost normally would work out to practically the same. But Government at that time had a large stock of rupees, and those rupees were being made no use of except as cover for the note issue and it was decided that for some years at any rate Government could make a considerable saving by stopping the issue of one-rupee notes and by issuing such rupees as were required from their stocks. I think that was the main deciding factor, the question of saving money for the time-being.

1184. Weighing the benefit of the economy effected by the use of rupees against the benefit to be derived from the encouragement of the use of notes, what conclusion would you come to as to future policy?—My conclusion would be that I think the one-rupee note ought to be re-issued.

1185. (*Sir Purshotamdas Thakurdas.*) Since the one-rupee note was discontinued has it come to your knowledge that the districts which take notes at the time of the marketing of their raw material have taken to the bigger denominations to Rs. 5 and Rs. 10 notes?—Well, I am afraid that I have not collected sufficient information on the subject to give an absolutely definite reply to that, but I will take the jute districts in Bengal which prior to the abolition of the one-rupee note took notes freely and took very little in the way of silver rupees, practically nothing. During the last jute season, Government had stocks of one-rupee notes which lasted about half way through the season. Thereafter they had to issue higher demomination notes and rupees. It was found that there was a large absorption of rupees amounting to 3 or 4 crores of silver rupees in the jute areas, whereas in the previous year there had been a very small absorption, under 1 crore; so that the indications that I have at present are that to some extent at any rate the one-rupee note has been replaced by higher value notes, but also to a considerable extent it has been replaced by rupees.

1186. That is your experience and information about the jute districts. Are you in a position to say anything about the cotton districts of Berar, the Central Provinces, and Gujerat?—I have not any very definite indications, I am afraid.

1187. Regarding the note issue by the Imperial Bank, do you think that it is likely that people may ask whether the notes which are being withdrawn and the new notes being substituted carry the same undertaking by Government or not? When I say people I mean the masses, the general bazaar people? —Generally I do not think they would enquire.

1188. The paper borrowings of the Port Trusts are in the case of the three or four main ports, Bombay, Karachi, Madras, and Calcutta, trust securities, and the other, municipal paper is not trust security. Are

you aware of any difference in the popularity of the two?—There is at present certainly a considerable difference.

1189. What is that due to, Mr. Denning?—I am not sure that it is due to the fact that one is a trust security and the other not a trust security. I think the present difference is due partly to the state of the finances of the various municipalities as against the state of the finances of the various Port Trusts.

1190. You have not heard that investors look at whether certain paper has been admitted to be trust security or not?—Oh, I think they do.

1191. And that it popularly carries in the minds of the people an idea that that paper is backed by the Government?—I have not heard of that.

1192. Take the two Municipalities of the Bombay Presidency, the Bombay Municipality and the Ahmedabad Municipality. The Bombay Municipal paper has the undertaking that the Government are responsible for the interest. The Ahmedabad Municipality has not that. Have you heard that the Ahmedabad Municipality some time back tried to float their paper at 6½ per cent. and, comparatively speaking, failed?—I had not heard it. If I did hear it, I should possibly explain it by other causes than the one you mention.

1193. You do not think that it has anything to do with the Government undertaking to pay interest?—I think it possibly has something to do with that.

1194. (*Sir Henry Strakosch.*) What limitations have been put upon the notes above the value of Rs. 500?—They are limited to the Circle of issue. There are in India seven circles of issue, which cover certain areas; for instance, the Circle of issue at Lahore covers the whole of the Punjab and North-Western Frontier Province. A five-hundred rupee note issued from Lahore is legal tender only in the Punjab and North-Western Frontier Province. It is not legal tender anywhere else in India.

1195. Would you see any great difficulty in relaxing that condition by making these notes of higher denominations payable at all the big centres in India, for instance, Bombay, Calcutta, Karachi, and Madras?—You mean payable at the general centres only. There is an arrangement by which notes of a foreign circle can be presented at any other Currency office and they will be received there on payment of a charge by the presenter equivalent to the charges which we make for remitting funds between one Treasury and another.

1196. Would that not account for the unpopularity of the notes? What I am trying to get at is, would it be a very great difficulty for the Government, or later on for the Imperial Bank, to be ready to encash these bigger notes at any of these centres?—The difficulty at present arises from the fact that it costs a certain amount, usually one anna per cent., or 1/16th per cent., to remit money from one centre to another. That is the general rate. It is sometimes lower. It depends whether the Imperial Bank is prepared to lower the rate; but the Imperial Bank has agreed to remit between any of its branches at that rate, and the Government has undertaken to remit between any of its treasuries at that rate. So the cost of the remittance to the general public from one place to another is usually 1/16th per cent. It is cheaper for remitters of large amounts to cut currency notes and send the two halves in two separate packages insured for a nominal amount to the place to which they wish to remit, to join the notes together and present the rejoined notes at the place to which they have been sent. That is to say, they employ our Currency notes as a cheaper method of remittance, and in the process they destroy our Currency notes because they cut them in half and we cannot use them again.

1197. Having regard to the centres I have just mentioned being very important centres, would you not in the ordinary course keep a very substantial reserve of coin there for the encashment of notes, and could you not rely on the ordinary movement of exchange to settle the difference between the greater amount of notes encashed at one centre at one time?—There is no difficulty in that. The point is that if we make the higher value notes universal, all we should do would be to encourage their use for remittance purposes; that is, we should encourage the public to cut them up into halves and remit them, because it is the cheapest method of remitting.

1198. (*Sir Reginald Mant.*) With regard to what you said about one rupee notes, I understand that when the issue of those notes was stopped a certain number of rupees were absorbed to replace them?—It is very difficult to say anything definite about that, because the process of the withdrawal of notes was a gradual one and during that period when the withdrawal was going on there were a large number of other factors affecting the absorption of rupees. So it is impossible to say definitely that the withdrawal of one-rupee notes has involved the absorption of a certain amount of rupees. As I pointed out, in the jute areas in Bengal it has undoubtedly resulted in the absorption of a considerable number of silver rupees, but it is impossible to give any definite figures.

1199. Quite so. If you re-introduce the note now some of those rupees would come back into your Currency offices?—Yes, I think they would.

1199A. And further rupees would be replaced by paper notes?—I should hope so. Yes.

1200. Would not the return of these rupees increase your present embarrassments in regard to your silver holdings?—What do you mean by our present embarrassments?

1201. I mean that you have got more rupees now than you can conveniently carry. I understand that you have great difficulty in finding places to keep them in?—I think that is only a matter of building new storehouses. It is not a very serious matter.

1202. But it is an economic waste having so much silver which you are not likely to want for years?—There is another way of dealing with it: Government might sell a portion of it.

1203. They might. But that also presents many difficulties?—I don't know: if it were sold very gradually I do not think that it would present very many difficulties. Supposing we sold the equivalent of two or three crores a year, that would not affect the silver market much.

1204. I only wanted to bring out the fact that at any rate the reintroduction of the one-rupee note at present would increase the rupee holding of Government. Would it not?—Probably yes. I think that would be the net result.

1205. (*Sir Alexander Murray.*) May I ask whether you might not wish to modify the reply which you gave to Sir Reginald Mant just now when you said that it would be difficult to get figures to prove that the withdrawal of the one-rupee note has resulted in greater absorbtion of rupees, by referring to your own Report as Controller of Currency for the year 1924-25, at page 48, in which you give the actual comparative figures of the absorption of rupees and notes in the Jute Districts last year, for the year before and the year before that? I have the figures before me?—Just let me explain. As I mentioned in my reply to Sir Purshotamdas, I said we could not judge from last year in the Jute Districts, because for half the year one-rupee notes were available. You cannot judge accurately until you have had a whole season with no one-rupee notes available. In hope to be able to produce some more reliable figures at the end of this jute season.

1206. Quite true. But with notes running only for half the year the figures bear out your point?—Certainly.

1207. In the year 1922-23 you state that the percentage of rupees taken upcountry was only 3 per cent. In the year 1923-24 the percentage was only 2 per cent. Last year, that is, 1924-25, which is the year in which the rupee notes were withdrawn, the percentage of silver rupees taken rose to 16 per cent.,

which on the face of it seems to bear out the suggestion that the actual withdrawal of the one-rupee notes has resulted in silver rupees going into circulation again?—Yes.

1208. And the figures are further supported by your own remarks on page 34 as well as page 48 of your report for 1924-25?—I agree with you; what I said was I could give no exact figures on the subject.

1209. But I am giving figures?—But they do not give an exact indication of what has been happening, because you have not had a period in which the full effect of the withdrawal has been felt.

1210. (*Chairman.*) We come now to the question of the best standard to adopt for the Indian currency, and in the short time that remains to us I will ask you one or two questions to clear the ground for further discussion on the matters particularly suggested in your note. In the first place, referring to the relative advantages of a gold exchange standard and a sterling exchange standard, I would ask whether, in your opinion, there will be a strong popular preference (and I lay emphasis on the word "popular" here) for the gold exchange standard as described by you in your note, in preference to the pure sterling exchange standard as described in Sir Basil Blackett's note?—I think there would be a distinct popular preference, from what I have heard in conversation with people generally who are interested in the subject.

1211. Could you amplify your answer a little by telling us what the state of popular opinion is and what considerations weigh in this matter?—Roughly I think the main popular objection to the sterling exchange standard is that it ties the rupee definitely to sterling, and therefore associates the rupee with all the movements which may take place in sterling. The popular demand in India is that the rupee should have a value which is independent of any management and should have a value which is fixed by statute, automatically in terms of gold. Generally speaking, a gold standard is asked for, and if a gold standard is impossible of attainment immediately, I think that a gold exchange standard would be much more readily accepted than a sterling exchange standard, because the rupee would be definitely linked to the standards of the world and not to one particular currency.

1212. Correct me if I am wrong, but I think the gold exchange standard which you describe in your memorandum allows for no actual holding of gold, but for the exchange reserve being held in various foreign currencies?—It does allow for the holding of gold. In clause (*d*) of paragraph 7 (F) of the memorandum on the "transfer of the management of the paper currency to the Imperial Bank of India" I say "of the metallic holding, not more than 50 crores should be in the form of silver rupees, or silver bullion valued at purchase price, the remainder being in the form of gold coin or gold bullion."

1213. I was thinking of paragraph 4 of the memorandum on the gold standard for India, in which you show that the defects (B) and (C) could be remedied without departing from the gold exchange standard, and then a scheme is outlined for holding, as I understand it, only foreign currencies?—I did not intend that.

1214. (*Sir Henry Strakosch.*) May I interject? Perhaps you have in mind clause 7 of the memorandum on "the transfer of the management of the paper currency to the Imperial Bank of India," sub-section (D) where you find that "all bank notes should be payable on demand in rupees, and the bank notes of the denomination of Rs. 10,000 should be payable on demand in rupees or in foreign exchange at the option of the presentor," no mention being made of gold.

1215. (*Chairman.*) At any rate, we take it now from Mr. Denning that his basic evidence in sketching any scheme for a gold exchange standard is that it should be governed by paragraph 7 (F) (*d*)?—Yes; that is correct.

1216. There should be a metallic holding of not more than 50 crores in the form of silver rupees, the remainder being in the form of gold or gold bullion?—Yes.

1217. That answers by anticipation the question which I was about to ask on that matter. It will be useful at this point to ask you a question which is relevant when we are considering any gold holding in a reserve, whether it be a sterling exchange reserve or a gold exchange reserve, that is a question as to the proper location for the gold held in such a reserve. Will you tell the Commission what is your opinion as to the location which is proper for such a holding?—I do not think it makes very much difference whether you hold that gold in India or in some big financial centre like London, where it would possibly have to be employed in time of necessity. My reasons are that it would be possible to employ the gold if held in India by one of two methods. It would be possible to sell gold as there is nearly always a demand in India for gold, and one could have the necessary effect on exchange by selling gold in India to meet part of the internal demand, thereby decreasing the amount of gold imported. The second method would be to obtain a sterling credit in London against that gold. There are therefore two methods of employing the gold if it is located in India quite apart from shipping the gold to the particular financial centre in which it might be required. I favour holding the gold in India, because there is a considerable popular demand that the gold reserves of India should be located in the country, and I think it advisable to meet that popular demand, as it would make little essential difference in the use of that gold.

1218. (*Sir Henry Strakosch.*) You mentioned just now that gold in India would serve first to stabilise the exchange by avoiding importation of gold which would be imported if gold were not saleable in India, and, secondly, by enabling India to borrow money abroad on the security of gold held in India. Do you think that a foreign bank would lend on gold which is not in its own possession?—I think the Bank of England would lend on gold held in India.

1219. Personally I doubt it?—I think it would. We have held a part of the Bank of England's gold before now.

1220. (*Sir Norcott Warren.*) Might I say to Sir Henry Strakosch they have lent to the Imperial Bank on securities held in India?

1221. (*Chairman.*) Quite a general question on this question of the gold exchange standard and the sterling exchange standard. Taking into consideration what you have just told us as to the popular demand in India for an exchange which is guaranteed against any divorce between gold and sterling; taking into account, on the other hand, the consideration familiar to the Commission of the large proportion of India's foreign trade which is settled in sterling and the still larger proportion of India's foreign trade which is actually transacted in sterling-using countries, what is your opinion as to the relative advantages of the two standards?—The difference between the two standards does not arise until sterling is divorced from gold; and assuming that India remained on a gold standard and sterling were divorced from gold, it would mean fluctuations in the rupee sterling exchange. That, I admit, would probably be an inconvenience to trade; but I think that inconvenience to trade ought to be faced rather than a variation in the standard of the currency in India.

1222. Is it quite right to say that the difference between the two standards does not arise until there is an actual divorce between sterling and gold? In your opinion, would the reserves in normal times that would have to be kept under the two standards be precisely identical?—No, certainly not. As regards the reserves, I admit there is a distinct difference. If a sterling exchange standard were adopted it would probably be very much cheaper.

With a sterling exchange standard it would be unnecessary to keep any gold in the reserves. But on the other hand, the stability of the system would depend on being able to realise sterling investments in London in case of necessity.

1223. In view of that necessity, would you be prepared to say that it would be unnecessary to keep any metallic gold reserve under the sterling exchange standard, even for the purpose, if I may put it in that way, of acting as a buffer against a glut of sales in the security market?—Yes, it would probably act as a buffer; in so far as gold were kept, it would decrease the cheapness of the sterling exchange standard as against the gold exchange standard.

1224. What would become of the balance of expense as against the gold exchange standard?—That would depend on the holding of gold which it was decided to keep.

1225. In your opinion, would it be necessary under the gold exchange standard to keep a larger reserve of gold than it might be considered desirable to keep under the sterling exchange standard? You have given us a figure in your memorandum of a balance of 50 crores?—Yes, I think it would probably be desirable to do so because you would have to be prepared, in the case of sterling becoming divorced from gold, to face the demand for foreign exchange which could be turned into gold.

1226. I understand your proposal is that, under the gold exchange standard, you contemplate that a part of the reserve should be kept in currencies other than sterling?—Yes, I think it might be advisable to do so.

1227. I do not think that you have suggested any fixed proportions or maxima or minima for such?—I have not suggested any fixed proportions.

1228. As a question of practice, apart from theory, would those holdings in other currencies serve any very practical purpose?—Only in the event of the divorcement of sterling from gold.

1229. It would rather be in the nature of a theoretical tribute that the currency was being divorced from gold?—Yes, I think so; it is practically the same.

1230. For practical purposes the bulk of the reserve would have to be kept in sterling?—Yes.

1231. (*Sir Henry Strakosch.*) I have not quite appreciated why the gold exchange standard need be more expensive than the sterling exchange standard, provided that in each case you kept an equal amount of gold in reserve. Why should the one be cheaper than the other?—One is not cheaper than the other, if you kept the same amount of gold in both cases.

1232. (*Chairman.*) Mr. Denning's answer was that, under the sterling exchange standard, he thought you would have to keep a larger amount of gold.

1233. (*Sir Henry Strakosch.*) May I ask why you would keep a bigger amount of gold under the gold exchange standard? Supposing always that your reserve consists, apart from sterling, of currencies that are convertible into gold?—I admit that with a proper distribution of your securities between sterling and securities of other countries under a gold standard it might not be necessary to keep any more gold than under a sterling exchange standard. The point is, I think, really that the transactions by which your reserve of securities would be increased and decreased would be between London and India. And therefore originally at any rate, in building up or increasing your reserve of securities, they would be increased in the first place in the form of sterling. There is no reason why you should not transfer them afterwards to some other country.

1234. You say that in the first instance they would be sterling securities, I take it because the bulk of India's money transactions are with England?—Yes.

1235. (*Sir Henry Strakosch.*) I see. Thank you.

1236. (*Sir Reginald Mant.*) Mr. Denning, do you think that there is any serious risk of sterling breaking away from gold again?—That is rather a wide question. It involves the consideration of whether we are likely to have another world war, for instance.

1237. Quite so—I realise that. But that is your main reason, is it not, for preferring the gold exchange standard to the sterling exchange standard —the main reason is, I understand, the risk of sterling breaking away from gold? That is why I put it?—That is one of my reasons, and the second reason is to meet a popular demand. There are two definite reasons.

1238. Well, you would rather not answer that, I take it. It is too wide?—I think it is rather a difficult question to answer. Assuming normal political conditions, I don't see any reason why sterling should break away from gold.

1239. Take your other reason—the popular demand. How is it expressed? Where do you collect this popular demand from?—I collect it daily by talking to people, and by reading the writings of Indians who are keen on this subject and, to some extent at any rate, represent popular opinion.

1240. But you have not gathered any reasons for it beyond the one that I mentioned, the possible instability of sterling?—Well, I think there are some.

1241. May I just make my point clear? One is a reason, the other is rather a belief, is it not? And I wanted to know whether it is an intelligent belief --whether any reasons had been given you in support of it?—Well, I think the popular opinion is to a certain extent based on the feeling that India's reserves, if they are held in the form of sterling, are not strictly under Indian control, that they are under the control of an authority in London, and that they are not necessarily managed in India's interests. That suspicion is entirely unfounded, but it is there.

1242. Well, then, that reason is unfounded?—I think it is unfounded, yes. But it is there, and it affects popular opinion and the attitude of the representatives of the people towards the Government on currency questions.

1243. You said just now that it would not be necessary to hold gold under a gold exchange standard, that sterling and other gold securities might be held. Was not that what you said just now?—Well, I think it would be advisable to hold a considerable proportion of gold as a buffer.

1244. But I am referring to this popular belief that the securities would be under the control of London and not of India. But under your gold exchange standard, you would hold a large number of securities?—One would hold a certain number of securities. But one would lessen the amount of the reserves of India which would be under the control of someone else.

1245. Would there be any more control—Indian control—over those reserves under that system than under the sterling exchange system?—No, I do not think there would.

1246. So on that ground also the opinion is hardly a reasonable one.—No, I am not suggesting that it is a reasonable one. But it is there.

1247. Then you cannot mention any reasonable grounds that have been given for it?—I don't think I can.

1248. (*Chairman.*) I gather, from what you have told us, that popular opinion on this subject would be comparatively indifferent to where the actual bulk of the securities was held if it obtained the right to get either gold for export or the currency of any gold-using country; and it is on those two latter conditions that emphasis would be laid as a protection of the Indian currency from a divorcement between gold and sterling?—Yes, I think so.—I think that states the case.

1249. As likely as not it would be contented with the formal right to get either gold for export or the currency of any gold-using country, and it would cease to have any strong feeling as to where the actual securities were held?—I think it would cease

probably to have any strong feeling as to where the securities of the reserve were held.

1250. (*Sir Alexander Murray.*) Is it not the case that until quite recently the distinction between a sterling exchange standard and a gold exchange standard did not exist. Right down till war time we heard no emphasis laid upon the gold exchange standard simply because the sterling exchange standard in practice was the same thing, and it is only within the past year, shall I say, if not within the last few months, that emphasis has been laid on the sterling exchange standard as apart from the gold exchange standard.—That, I think, is a reasonably accurate statement of the case, but the fact has been brought into prominence by the divorce of sterling from gold during the war. There has been no other occasion when sterling has been divorced from gold since the gold exchange standard was instituted in India.

1251. In effect the matter is largely academic so long as sterling and gold are not divorced from each other again?—Quite.

1252. (*Sir Purshotamdas Thakurdas.*) Do you think that the Indian public or the popular opinion that you refer to may be based on this, that in view of the experience after the outbreak of war, they feel that if they are on a gold standard in preference to the sterling exchange standard, they may be in better touch with the financial world in case of a serious dislocation and not be tied to what is happening to the pound sterling?—Yes, I think I have made it clear that it does more effectively maintain India's standard in the event of sterling being divorced from gold.

1253. Therefore, that feeling need not necessarily be based on mere sentiment or mere political feeling. There may be something behind it in what I have mentioned.—Oh, yes; I admit that.

1254. (*Chairman.*) That clears the way now for dealing on the next occasion with the question of the gold standard as raised in your memorandum.

(*The witness withdrew.*)

FIFTH DAY.

Monday, November 30th, 1925.

PRESENT:

THE RIGHT HON. EDWARD HILTON YOUNG, P.C., D.S.O., D.S.C., M.P. (*Chairman*).

Sir RAJENDRANATH MOOKERJEE, K.C.I.E., K.C.V.O.
Sir NORCOT HASTINGS YEELES WARREN, K.C.I.E.
Sir REGINALD MANT, K.C.I.E., C.S.I.
Sir MANECKJI BYRAMJI DADABHOY, K.C.I.E.
Sir HENRY STRAKOSCH, K.B.E.
Sir ALEXANDER ROBERTSON MURRAY, C.B.E.
Sir PURSHOTAMDAS THAKURDAS, C.I.E., M.B.E., M.L.A.
Professor JAHANGIR COOVERJEE COYAJEE.
Mr. WILLIAM EDWARD PRESTON.

Mr. A. V. V. AIYAR, C.I.E.
Mr. G. H. BAXTER. } (*Secretaries*).

Mr. H. DENNING, I.C.S., re-called and further examined.

1255. (*Chairman.*) Mr. Denning, I now want to take you through the memorandum signed by you on a gold standard for India, the consideration of which will enable us to raise most of the remaining points on which we hope for assistance from you. You deal there, in the first place, with the defects of the existing system, and analyse the possibility of remedying those defects by having an exchange standard. In the course of that analysis, you draw attention to the difficulty of amalgamating the paper currency reserve and the gold standard reserve as long as the rupee remains unlimited legal tender. In your memorandum on the Transfer of the Management, you outline a scheme under which the transfer could be effected by retaining a separate rupee redemption reserve under control of the Government. Sir Basil Blackett, in his memorandum on the Currency System, outlines another scheme by which an amalgamation of the two reserves is effected, coincident with the transfer of the note issue under an exchange standard system. Having considered the scheme in Sir Basil Blackett's memorandum, do you find that it at all relieves the difficulties which you describe in your own memorandum in regard to the amalgamation of the reserves?—In my opinion, the defect in the scheme outlined by Sir Basil Blackett is that his liabilities are an estimate in the first place based on a factor which is extremely difficult to estimate, that is, the amount of rupees in circulation, and, in the second place, on the difference between the bullion and exchange value of the rupee which varies from time to time. So his reserve is a reserve against liabilities which are indefinite, and, therefore, it is rather difficult to say whether his reserve is a sufficient one, or whether with such a reserve there might not be a considerable danger of a breakdown of the system from causes which we cannot see now.

1256. Is not some estimate as to the liabilities involved implied even in your own proposals, according to which the present total of the reserves held against this particular liability now in the gold standard reserve, and in future in the rupee redemption reserve, is fixed at a definite figure?—I admit that there is a possibility that my rupee redemption reserve would also not be sufficient to meet certain contingencies. But I do not necessarily propose to keep that redemption reserve on its present level. If it were decided it is not sufficient, it would go on

being increased as opportunity arose. Sir Basil Blackett's reserve would remain constant, except in so far as he would increase it from 25 per cent. of the amount of coinage of rupees.

1257. Sir Basil Blackett's present scheme allows for a proportional increase of the reserve with an increase of liabilities against that reserve?—He assumes that the increase in the liability is only 25 per cent. of the amount of rupees issued.

1258. As you say, Sir Basil Blackett's scheme fixes, apparently once and for all, the proportion of the reserve, but might not that be open to reconsideration with experience just as the amount of the rupee redemption reserve would be open to reconsideration?—I agree, if Government retain responsibility for reserves. It would be more difficult if the reserves were handed over to tho Central Bank.

1259. It would be more difficult; it would involve some negotiations or agreement with the Banking authorities?—Quite.

1260. You refer to the necessity, in estimating the amount of the reserve to be held against this liability under Sir Basil Blackett's scheme, of taking into consideration the doubtful factor of the bullion value of the rupee according to the changes in the silver market. Under Sir Basil Blackett's scheme would that, in your opinion, be a relevant consideration? Would not the relevant consideraiton as to the amount of the reserve be only the contractibility of the currency, looking upon a rupee that came in as the rupee that would go out again some day?—I think that is correct, assuming that there are no facilities for converting your rupees into some other metal.

1261. Supposing that in Sir Basil Blackett's scheme were to be found a practical solution of the difficulty of combining the reserves, would that, in your opinion, remove the chief or a substantial argument in favour of limiting the legal tender of the rupee?—It would remove a substantial argument, but not the chief argument.

1262. I would point out that in your memorandum that is put forward, I think, as really the critical argument for limiting the legal tender of the rupee?—No, I think the critical argument is the danger of the breakdown on account of the rise in tho price of silver.

1263. At this point let me ask you whether, in your opinion, the system of the gold standard currency outlined in your memorandum completely remedies the defect in the existing system that it is at the mercy of changes in the silver market?—Not completely, I think; because the subsidiary silver coinage would be affected. But once having reduced the rupee to a subsidiary coin, I think there is comparatively little objection to reducing its fineness.

1264. Let us envisage the situation. You have, as we have learnt from your estimates, still a rupee circulation of 150 crores. What will be the social as well as the financial reactions upon the uninstructed public, even when the rupee is no longer unlimited legal tender, of a reduction in the fineness of the rupee, or the substitution of an allegorical coin for the rupee, or an attempt to substitute small notes for the rupee circulation?—I think if it were done gradually, the social and economic effects would not be serious. But I do think that they might be serious if an attempt were made to do so as long as the rupee is a full legal tender.

1265. Undoubtedly. But would you not expect to see your subsidiary coinage going to a discount on the hypothesis described, even if the rupee were no longer unlimited legal tender?—I do not think so.

1266. In expressing that opinion you have considered the social effect upon the time-honoured and inveterate reliance, which has been explained to us of the uninstructed public upon the rupee coin and its fineness as the chief circumstance to which they attach importance in their currency system?—I think by going on to a gold standard, you would modify those circumstances very considerably.

1267. There is a minor question upon your description of the objections to transferring the combination of the reserve that I would like to ask. You say in the middle of paragraph 6, "and the liability to redeem silver rupees outstanding would have to be provided for by a separate reserve"; and you give as a reason, as I understand it, that coinage is obviously a function of Government. That suggests the question whether we have not been taught to consider that the rupee is not so much a coin as a note on silver; and that, although coinage is a function of Government, a note issue is in ordinary practice the function of a Central Bank. Do you find anything to enable you to agree with that alternative aspect?—Not very much. I might agree if the coinage of subsidiary coin were also considered a function of a Central Bank; generally speaking, that is considered to be a function of Government.

1268. But we are dealing here with an exchange standard system in which the essential position of the rupee continues to be that of a note. Undoubtedly, under the gold standard system the essential position of the rupee would be that of a subsidiary coin. Under the exchange standard system, while the rupee continues to hold essentially the position of a note, would it not be more in accordance with the ordinary practice in other countries that the control of the rupee issue should be with the Bank rather than with the Government?—I do not agree that essentially the position of the rupee is the position of a note because the rupee carries a large value in itself. The note carries no value in itself, and the profit on the issue of rupees arises in rather a different way from the profit on the issue of notes.

1269. Finally, on this aspect, Mr. Denning, in your analysis of the disadvantagos of the present system, we find disadvantage (*d*) in paragraph 2:—"Although it was possible for the public to obtain as much additional currency . . . by buying Council bills . . . there was no automatic provision for contracting the currency," and then you describe how that is so. What, in your opinion would be the effect of the arrangement which you describe of a separate rupee redemption reserve in the hands of Government in remedying this particular defect?—I think, as a matter of fact, I have overstated the case at the end of paragraph 5 by saying that it is practically impossible to remedy defect (D) without taking away the full legal tender character of the rupee. It could be arranged under the system outlined by mo with a separate reserve for the redemption of rupees.

1270. Correct me if I am wrong, but it appears to me from your statement as if the system would not work automatically the contraction of the currency against the use of the rupee redemption reserve?—I think it would work like this. Supposing the Bank presented a crore of rupees to Government. That would be taken out of their currency reserve. Suppose with that crore of rupees which had been presented to the Government the public had obtained sterling from the Bank to the extent of one crore. The Bank would have to pay out from their sterling reserves in London one crore and they would obtain one crore of sterling resources from Government. Therefore their reserves would, I think, be down by one crore of rupees, and there would be an automatic contraction of the currency.

1271. We may take it that, in a bad year, currency is retained and that the Bank come for a crore of rupees to the Government, against which the Government let out its rupee redemption reserve, so that the Government is a crore of rupees in hand and a crore of sterling credit down. What is to prevent the Government from making use of that crore of rupees?—They can only issue them through the Bank under my scheme.

1272. That would be a part of the agreement between the Bank and the Government, that the rupees could only find their way out into circulation by returning into the hands of the Bank?—Yes.

1273. What is to prevent the Government from arranging with the Bank to demand a crore of rupees and paying it to the credit of Government, say for the purposes of the Raisina works?—What could the Bank do with that crore of rupees if their reserve of rupees was already up to the limit? They could not afford to take back a crore of silver rupees because they could not use them.

1274. (*Sir Henry Strakosch.*) I do not quite follow the procedure in the last case with which you dealt just now. If the rupees come back from circulation and they become redundant in the hands of the Bank, then the rupees return to the Government, and the Government hands out to the Bank a part of the sterling reserve. Is that so?—Yes.

1275. Now then if the Bank had additional sterling reserves, is it not reasonable to assume that those reserves would be used to build upon them additional credit and thus keep the circulation at the same level only in another form?—I assume that the Bank would have to give something for the crore of rupees and I assume that this crore of rupees is received in exchange for gold or sterling. Therefore, the Bank has to pay out a crore of gold or sterling in order to get back that crore of rupees.

1276. So the position would in reality be exactly the same as before, at the time when the rupees were still in circulation?—No, a crore of rupees returns to the Bank.

1277. What I did not follow was, how the currency would be contracted in these circumstances?—You will agree that the rupees will be returning from circulation. That is a definite contraction of currency: and unless those rupees are replaced in some way by the Bank, you have a definite contraction of one crore?

1278. There is another question. I see from this memorandum that it was assumed that the limit of rupees as legal tender under the gold standard is set down at Rs. 50? May I ask why that figure has been chosen?—Rs. 50=75 shillings, and the limit of token coin tendered in England is 40 shillings, and I believe in some other countries the limit is also somewhere in the neighbourhood of 40 shillings. —I think one idea underlying the fixing of Rs. 50 was that it might be desirable in India where the ordinary retail transactions involve the use of a currency of a small denomination to fix a higher legal tender limit than in the rest of the world.

1279. But what would you think of the argument that, if a country is poor, the upper limit of token coin as legal tender should logically be lower?—There is, I think, a great deal in that argument logically.

1280. And would it not, if you fix the upper limit at 50 shillings, make really very little difference in the use of the rupee coin as full legal tender and unlimited legal tender?—I am not sure whether it would make much difference from that point of view whether it was Rs. 50 or Rs. 30. I think to a large extent the rupee will continue to be used and will be accepted as full legal tender just as I imagine is done in other parts of the world.

1281. And if it is used practically as it is being used to-day and if the price of silver were to rise above melting point, then the inconvenience logically would be almost as great under a system where the rupee was limited legal tender up to as high an amount as under a system where it was full legal tender?—I do not say it would be almost as great. I do not say silver will continue to be used as much as it is used now as full legal tender. I say it will still continue to be used to a certain extent.

1282. Well, if the average transaction is below Rs. 50, then I cannot quite follow why it should be used to a lesser extent than it is used to-day.—The occasions on which rupees are most used are at the time of crop financing and the ordinary transactions then are considerably above Rs. 50.

1283. And then may I come back to the first question the Chairman put to you, and that is the question of the total rupee circulation and the two plans, one proposed by you and the other by Sir Basil Blackett. Is it not a fact that in each case we have to estimate the amount of rupees in circulation in order to determine what reserves have to be provided for if the gold standard were adopted?—As between the gold exchange standard and Sir Basil Blackett's sterling exchange standard?

1284. No, I am speaking of the full gold standard. —Well, we have to make an estimate it is true, but that estimate is for the purpose of ascertaining (1) cost, (2) the extent of the gold we shall require and (3) the extent of the general disturbance in the world; that estimate is not going to remain a permanently uncertain feature of the currency system.

1285. But my point is this. Do we not have to make an estimate both in your scheme and in Sir Basil Blackett's scheme as to the total amount of rupees in circulation which has to be protected by the gold standard reserve?—You mean under the gold exchange standard?

1286. (*Sir Henry Strakosch.*) No, under the gold standard.

1287. (*Chairman.*) As regards the gold standard, I think the two schemes are practically identical, not in figures but in mechanism.

1288. (*Sir Henry Strakosch.*) In both cases you have to estimate the amount of rupees in circulation and therefore the likelihood of rupees coming back?—But the difference is that in the case of the gold standard you get rid of those rupees within a period of ten years and the uncertainty is gone; in the case of Sir Basil Blackett's system it will remain a permanent feature of the system.

1289. Then the difference between Sir Basil Blackett's scheme and your scheme regarding a reserve is that he provides that the reserves shall be 25 per cent. Do not you think that that would be sufficient security in the case of rupees flowing back and foreign exchange being in demand?—Yes, I think it might be, but that is a matter of opinion. The reserve is not based on definite facts. It will remain a matter of opinion as to whether it will be sufficient.

1290. But his proposal is that for every new issue of rupee coin the reserve should be amplified by Re 1 for every Rs. 4 put into circulation; and that is the essential difference between his and your scheme. Yours is a more complicated scheme under which you take into account the bullion value?—Well, I suggest it may be necessary to take the whole of the profits on the coinage of fresh rupees to the reserve for the redemption of rupees.

1291. And his proposal is to set aside 25 per cent.? —His proposal is to set aside 25 per cent. and to use the difference.

1292. But if we agree that a contraction of 25 per cent. is probably the maximum that the country can stand, would you then agree that there is a sufficient reserve provided under Sir Basil Blackett's scheme?—There will be a large amount of rupees in circulation and the reserve might not be sufficient to meet them.

1293. (*Sir Maneckji Dadabhoy.*) In answer to the President's question speaking about Sir Basil Blackett's reserve, you said his reserve is a reserve against liability and it is difficult to say if it is a sufficient reserve and you anticipate a breakdown. Will you please tell me at what stage you anticipate this breakdown?—I do not say I anticipate a breakdown; I say there is a possibility of a breakdown.

1294. And could that be averted?—You mean by a modification of the scheme?

1295. Yes.—Well, it is difficult to say. As I say your liabilities are indefinite. Then you provide a certain reserve on an estimate of your liabilities. If your estimate proves very wrong then your system might break down.

1296. Speaking about the reserve for the redemption of rupees, at what level will you keep it; can you suggest a figure?—Well, I think that also will depend upon the policy which is adopted. If, as I

suggest might be done, we were to throw out gold coinage freely, make gold freely available, we should go on using the reserve from the time of the adoption of the new system, because rupees would, to a considerable extent, be changed into gold, and the reserve for the redemption of rupees would have to bear the loss of converting rupees into gold. If we are going to do that we shall probably have to go on piling up the assets in the reserve for the redemption of rupees returning from circulation.

1297. Would that be economy or the proper thing to do?—Well, it is what has been done in the past. Until the last two or three years we have been crediting the interest on the securities in the gold standard reserve to the gold standard reserve itself.

1298. But that was only a temporary device—to credit these profits to revenue?—Yes, it was supposed to be temporary.

1299. Now speaking about the subsidiary silver coinage, you said it would be affected. Do you suggest any remedy for guarding against that?—If the gold standard has been introduced?

1300. Yes.—As I say, it is possible that you might reduce the fineness of your subsidiary coinage.

1301. You have no other suggestion?—Well, the use of rupee notes would help.

1302. (*Sir Maneckji Dadabhoy.*) May I draw your attention to paragraph 13 of your memorandum in which you discuss the method of meeting the demand for gold. There you sum up the situation thus: "In either case, the net result would be that the private imports of gold would, shortly after the introduction of the new system, be at least as large as under the present system, . . . The sterling reserves, however, would be used up in meeting the Home charges." Will you please let me know how this considerable dislodgment of silver will affect internal prices?

1303. (*Chairman.*) Might we take that a little later, Sir Maneckji, when we come to that paragraph?

1304. (*Sir Maneckji Dadabhoy.*) Just as you like, Sir. I am sorry I have not had the advantage of hearing Mr. Denning's previous examination, and I do not know whether I am going over the same ground.

1305. (*Chairman.*) Not at all; it is a most useful and interesting question, but it will come more neatly later. Mr. Denning, just to make it clear, you suggest that there would be a possibility of breakdown in Sir Basil Blackett's scheme if the percentage is not high enough. Equally there is the possibility of a breakdown in your scheme also?—There is, but it would not be a serious breakdown. Under Sir Basil's scheme the whole arrangement with the bank and the constitution of the bank reserve would go.

1306. It would be a breakdown of a more cast-iron scheme in that case, as I understand it.—I suggest that you can prevent a breakdown under my scheme by raising sterling credits. That is the only action you would have to take; my scheme remains the same except for that, whereas the whole of Sir Basil Blackett's scheme will break down.

1307. (*Mr. Preston.*) In paragraph 2 (D), the last sentence, you say—"In other words, when exchange drops to the lower gold point there is no automatic decrease in the currency. Had it not been for exchange such decrease would depend on the action of Government." Am I not correct in saying that the functioning of the gold standard reserve has always been held to be the primary source for maintaining exchange by meeting reverse council bills?—Yes, I think so.

1308. And then, Sir, would I be right in saying had Government correctly administered the gold standard reserve, would there not have been that immediate, effective, automatic contraction of currency we all so desire?—Well, that is a criticism of Government's policy in doing something else, and I think one would have to go into all the circumstances in which they decided not to have an automatic decrease in the currency.

1309. Well, perhaps I put the question rather awkwardly. What I want to ask is, had they followed the accepted rule, contraction would immediately have become effective?—If, as soon as they had sold reverse councils they had put a corresponding number of rupees into the gold standard reserve, contraction would have been effected.

1310. If we turn to a statement in the memorandum on "A Gold Standard for India" for the years 1906, 1907, 1908 and 1909, and taking 1908 really as the major one, in March, 1908, there was held in the Indian portion of the gold standard reserve silver to the extent of 4 millions sterling, which increased in September to 12 millions sterling. Now, that was silver which was actually taken out of the circulation, and it was held up in the gold standard portion of the gold standard reserve in India; so the currency was contracted to that extent?—My point is not that Government could not contract that currency, but they need not if they did not want to.

1311. But should they not have done it?—Possibly; but perhaps after an examination of the circumstances at that particular time they decided not to.

1312. That policy had been pursued in the four years from 1906-10, but has not been pursued since then?—I am not sure of that. I do not remember the circumstances properly, but I am not sure that that increase of rupees in gold standard reserve was entirely duo to the sale of reverse councils. I do not think those rupees were put in automatically as reverse councils were sold; I am not sure about it. I looked up the case of the sale of reverse councils in 1914-15 and I do know at that time Government borrowed from the gold standard reserve. They did not decrease the currency.

1313. They sold reverse councils to the extent of 8 millions sterling?—Yes.

1314. I think those figures are almost conclusive evidence that the equivalent in rupees of 8 millions sterling was set aside and earmarked in a separate reserve in India for the Indian portion of the gold standard reserve?—It was not done immediately. It may have been done afterwards. I have looked it up, and I am quite sure that to meet that demand they borrowed from the gold standard reserve. They may have put it in afterwards, but I am not sure.

1315. Well, according to these figures in 1908, there was the balance of silver held in India to the credit of gold standard reserve, which, if they had been silver, had been withdrawn from circulation?—Yes, I am not saying that they had not been withdrawn from circulation, but I say that it was not an automatic process as far as I know.

1316. Four millions sterling represented as far as my memory goes, the rupee portion of that reserve which was agreed to in old days. Then that would bear out what I said that in September, 1908, reverse councils were sold to the extent of 8 millions sterling, and sold so long as reverse councils are sold, you will agree, I think, that if the equivalent of legal currency is taken and set aside in a special fund forming part of that parent fund, that that is contracting?—I agree.

1317. Which is what we desire?—I agree to that. If that was provided by statute, then there would be an automatic decrease in the currency.

1318. (*Sir Purshotamdas Thakurdas.*) Regarding the amount of rupees which may be allowed to be legal tender, comparisons with other countries show that the amount you have indicated, viz., fifty rupees, is on the high side. But does the amount not also depend upon the banking habits of the people, and the facilities for changing into smaller denominations available in the country?—I do not quite see that.

1319. Suppose a man has 3 gold hars or gold coins or 2 currency notes for 100 rupees each, and he wants to change it into smaller denominations, I mean, he wants five-rupee notes, or one-rupee notes or one-rupee silver coin. The facilities for such change in

the country at the moment happen to be fairly small, the village sircar will charge a commission on changing bigger denomination notes or changing gold coins into the smaller subsidiary coins. In view of that, is it possible that you put the limit at Rs. 50?—I do not think that makes very much difference, because, assuming that the holder of a hundred-rupee note wanted to change that hundred-rupee note for smaller denominations, he could change it into five ten-rupee notes and the rest into rupees; he would only want rupees for the smaller transactions.

1320. But the very fact that he wants to change the hundred-rupee note into ten-rupee notes or into one fifty-rupee note, and the other 50 silver rupees, means that he will have to pay commission or discount in the major part of the country where the banking facilities are scarce; don't you think it necessary to keep the maximum amount of rupees as legal tender on the high side at the start?—I do not think that there is very much in that argument.

1321. Do you think that it would be also desirable to keep it on the high side in order to ensure that as few rupees as possible are returned for exchange in gold?—I am inclined to think that it would not make very much difference.

1322. If you had your legal tender limit, say, at 100 rupees, where people could hold that amount in hoards, they would not care at all, unless they really preferred gold to silver, they would not change from one coin to another, will they?—Now we will have to consider what he wants his rupees for.

1323. Simply because he is not accustomed to the habit of investing, and he likes gold better under the new circumstances. But if he allowed the period to lapse, he may not be able to use his hoard later for purposes of lending?—At any rate, if he ever wanted to get rid of it, all that he need do is to get rid of Rs. 30 at a time; that is, if the legal tender were only 50, he could get rid of the rupees at any time he wanted by handing them out in three blocks instead of in one. I do not see that it makes very much difference.

1324. If he had to lend them?—He has only got to go to two different places.

1325. I think in a part of your memorandum you say we will have to guard against the rush of rupees being changed into gold as soon as you put a gold coin into circulation. Till 1914 gold was available for circulation fairly easily without any restriction to those who wanted gold instead of silver?—Yes.

1326. There was no hesitation on the part of Government. Government gave out gold coin as readily as they gave silver coin?—They did up to 1914.

1327. Up to 1914? Up to the outbreak of war?—I think the issue of gold was stopped for some time, but it was started again as far as I remember between 1910 and 1914 and gold was sent out to outlying treasuries and offered freely.

1328. Up to the time of the war?—Yes.

1329. Can you tell us how many rupees were exchanged for gold when that facility was available?—All that one could give in figures would be the absorption of gold.

1330. (*Sir Purshotamdas Thakurdas.*) I have seen the total absorption of gold between 1910-11; I wonder if you could bring those figures up-to-date or tell me where these figures would be available.

1331. (*Sir Alexander Murray.*) They are in Appendix III to the historical review?—You get the figures of absorption of gold coins for 1924-25 in Appendix III to the historical memorandum.

1332. (*Sir Purshotamdas Thakurdas.*) Have you been giving out any gold coin at all lately?—No.

1333. Then how does the absorption of sovereigns and half-sovereigns come in 1923-24?—It is the import.

1334. But the import is not absorption; until you put it into circulation it is not absorption?—But it is there; it is in the hands of the public.

1335. You mean import on private account?—Yes.

1336. I was thinking more through the Currency Office?—We are not putting any through the Currency Office.

1337. What I wanted was those figures for circulation and the absorption of gold coin through the Currency Office.—I think it will be possible to obtain that.

1338.—That is why I said that this statement does not give the information; when Government were ready and prepared and did give out gold coin in exchange either for silver or for paper, how much did people take from the Government Currencies?—I think those figures could be obtained.

1339. I had seen the statement referred to by Sir Alexander, but I felt that it was not what I wanted. What I really want to know is what rush there will be for exchange of silver coin into gold when gold is offered by Government. I take it that you could get these figures for pre-war years without much inconvenience?—I think Mr. Aiyar could get those figures.

1340. Why do you think then, Mr. Denning, as I think you said in reply to Sir Maneckji Dadabhoy, or some other colleague of mine, why do you think that there would be an extraordinary rush for a new gold coin which may be introduced, say, within the next year or so?—I would not say that there will probably be an extraordinary rush; if it were announced that the full legal tender of the rupee were to be taken away, that would be the main cause of the rush.

1341. If you announce that the token rupee will not be full legal tender except to a certain point there may be rush?—Yes.

1342. If you did not interfere with the full legal capacity of the rupee, then, there would not be an extraordinary rush?—No, I do not think there would be any very extraordinary rush.

1343. There would be no more rush for the gold coin than there was before the year 1914?—No, I would not say that, because I think there has been a change in the habits of the people. I think they like gold very much better than before.

1344. Would you agree in the last three years they had got all the gold which they were thirsting for or that their hunger for gold has been mostly satisfied?—Partly yes.

1345. Gold rates have gone down fairly low, much lower than they have been at any time during the last 15 or 17 years; do you not think that that extraordinary thirst has been quenched?—I would not say it has, because the import of gold is still on a fairly large scale.

1346. Don't you feel that the demand has really fallen off from what it was really a year ago?—Certainly. But then last year's was an exceptional demand. The demand for the first seven months of the present financial year as against the first seven months of the last financial year shows a difference of seven crores. It is seven crores less.

1347. You would still not be inclined to say that for all practical purposes the people have very nearly been saturated with the gold they might have wanted?—No, I should hesitate very much to go as far as that.

1348. If the rates of gold went down they might take perhaps more?—I think they will go on taking more gold.

1349. Irrespective of a decline or rise?—Not irrespective. They will go on taking gold if it remains at its present price or goes lower. If gold became dearer they might not.

1350. (*Chairman.*) I would like to ask one or two questions arising out of those answers. As I understand it the actual tender of rupees to Government for gold has been blocked since the introduction of the two shillings ratio?—Yes, you mean the issue of sovereigns?

1351. Yes?—Yes.

1352. Do you happen to know what the bazzar price of gold is at the present moment?—I think it is about 22 rupees a tola.

1353. (*Sir Purshotamdas Thakurdas.*) It has been Rs. 21-5 or 21-6 a tola.

1354. (*Chairman.*) It works out to Rs. 13-6 a sovereign?—About that.

1355. (*Sir Reginald Mant.*) You said, if I understood you rightly, that your scheme provided for an automatic contraction of the currency, Government taking rupees from the Bank, and you said that Government would not be able to put those rupees back into circulation, because the Bank would not take them?—Yes.

1356. Could not Government theoretically use those rupees at its own Treasuries and pay them out?—Yes, but they would promptly come back to the Bank again, and then be presented by the Bank again, because their limit would be reached—50 crores.

1357. Until they came back to the Bank again, the currency would not be contracted?—They would come back at once, because the Bank would put them in their currency chests at their branches; and directly they went into a currency chest, the rupees in the bank's reserve would be excessive.

1358. But there are a certain number of Treasuries where there are no branches of the Bank?—But I assume that as a matter of convenience we shall hold currency chests at Treasuries on behalf of the bank.

1359. The Bank would put those rupees into the currency chests?—No, we should put them in ourselves to save our own balances.

1360. Theoretically, supposing you had a surplus of rupees unless you had an obligation to hold them apart from the Government. We are assuming balances—you could theoretically utilise them?—You could utilise them, but they would come back at once. The underlying assumption is that there is a return of rupees from circulation. If Government for their own direct payments to the public throw out more rupees, then they are only going to increase the amount that would come back.

1361. But during the process?—It would be a very short process. The two things would be almost simultaneous.

1362. Supposing Government sold those rupees, melted them down and sold them for gold, they could utilise the gold for currency, could they not, unless they were under a legal obligation to maintain the gold standard reserve at a minimum amount?—Then there would not be any contraction of currency? What I want to put to you is, I think you admitted it in reply to the Chairman, that unless there was the legal obligation on Government to maintain the reserve for the redemption of rupees at a minimum figure, there would be no automatic contraction of the currency?—I think it will be extraordinarily difficult for Government to make the arrangement. You now suggest that they should issue gold, and when the rupees come back from the Bank, Government would issue coin; they could not very well issue them in places where there is a branch of the Bank, as all the Government transactions are put through there.

1363. They could take the gold to the Bank and get notes for it?—Yes they could, but I am assuming that Government have to keep their reserves in cash.

1364. Then you are admitting my point?—Yes. I agree.

1365. You would have to impose a legal or moral obligation on Government to keep their reserve intact?—Yes, I agree there.

1366. You said, I think, in answer to the Chairman, that your main reason for advocating the introduction of a gold currency was the risk of the bullion value of the rupee exceeding its token value; is that correct?—Yes.

1367. At the present rate of 1s. 6d. I understand that silver would have to rise above 4s. an ounce before that risk became a practical one?—I think so.

1368. Do you consider that, short of a world cataclysm like the great war, there is any serious risk of silver rising above that rate?—I think there is a risk, apart from a world cataclysm; I do not pretend to know very much about the silver market, but it is possible to imagine a combination of circumstances, say a drop in the Mexican production of 40 million ounces owing to troubles in Mexico, and at the same time a very large demand in China, and possibly a further large demand in India. It seems to me that it is quite possible you might get a very large rise in prices. After all the Mexican production did drop by 40 million ounces in 1913-14.

1369. You could get a sufficient margin of safety by fixing the exchange value on a high level if you put the token value high enough.—You get a larger margin of safety.

1370. So that really your preference for a gold currency is due to your objection to raising the exchange value of the rupee?—Oh no. However much you raise the exchange value of the rupee, there is always a certain element of risk.

1371. Owing to the possibility of a rise in price of silver?—Yes.

1372. (*Sir Alexander Murray.*) Arising out of Mr. Denning's answers to Mr. Preston regarding paragraph 2 (D) of his memorandum on a gold standard for India, regarding the sale of reverse councils resulting in the contraction of currency, would it be possible for Mr. Denning to give the Commission a short note explaining the occasions on which reverse councils were sold and what the practice adopted then actually was as regards the contraction of currency. They were sold in the years 1908-09-10 and in 1915-16, and again after the war.

1373. (*Chairman.*) That would be in amplification of the historical memorandum dealing with the years in which reverse councils were sold, and bringing out what course was pursued as regards the contraction of currency and what effect that course has had.

1374. (*Sir Alexander Murray.*) Yes, and, if it is possible, what were the immediate causes that induced Government to depart from the theoretical idea of contracting currency when reverse councils were sold.

1375. (*Chairman.*) Would it be possible, Mr. Denning, to have that prepared as an amplification of the historical memorandum?—Yes, I think so.

1376. (*Chairman.*) I think that would be of service to the Commission.

1377. (*Sir Norcot Warren.*) Assuming that gold currency is introduced, will the fact that Government issued gold on two previous occasions and then withdrew the privilege have any effect on the first rush for gold? Would you think that people would try and get all the gold they could at the start?—I think it is possible.

1378. (*Chairman.*) Continuing your memorandum, we come next to a closer consideration of what is said there as regards the gold standard, and if the questions are all directed to testing your conclusions it, of course, does not follow that any particular point of view is assumed by the questioner. I come to paragraph 8 of your memorandum, in which you say:—"Undoubtedly, the ideal to be aimed at is the system now in force in Great Britain under which the note is the sole full legal tender in circulation, and the gold value of sterling is stabilised by the statutory obligation imposed on the Bank of England to buy and sell gold at rates corresponding roughly to the par of exchange," and so forth. Now, assuming the ideal, will you tell us whether in your opinion it will serve to advance that ideal that there should be an intermediate period of the gold standard system during which the people would become accustomed to the right to a gold currency?—Yes, I think it will advance the attainment of that ideal. I think

it will tend to popularise notes if they are convertible into gold. If you popularise notes you tend to reduce the use of metallic currency.

1379. Is it not the experience of other countries that the right to a gold circulation, once it has been secured, is one which it is very difficult to induce a population to part with?—I am trying to think of countries in which such action has been taken.

1380. To make my point clear, let me instance the case of Great Britain before the war, where there was a partial gold circulation. Could you imagine any convulsion less enormous than that of the Great War which would have induced Great Britain to leave this gold standard and to assume a strict exchange standard such as that to which you refer here as the ultimate ideal?—Well, I think it is possible that there would be a certain section of the people who would object strongly to parting with their gold. But you have, on the other hand, the example of the United States of America, where gold was in circulation at one time and had practically ceased to circulate before the war. It is rather difficult to judge the case of Great Britain. You have on the other side the factor that the people are perfectly satisfied with the notes now.

1381. But it took the abnormal experiences of the Great War in order to teach them?—I think it would be extremely difficult to stop suddenly the issue of gold coin, but I do think it is reasonable to believe that, if you have a note of sufficiently low denomination which can be substituted for gold, the use of notes might grow. The trouble in Great Britain was that there was no note of a denomination below £5. It was too large a unit.

1382. I will put it finally in this way. Might it not seem somewhat contradictory that, in order to accustom people to the use of inconvertible notes, you must in the first place accustom them to the use of gold?—At first sight, it does seem a little contradictory.

1383. Nevertheless, I understand you are of opinion that, under Indian conditions, that is a necessary preliminary to accustoming people to an inconvertible note?—I think it would hasten the attainment of the ideal—I think it would be a slower process if you kept the present system.

1384. Do you consider that the process by which the population accustoms itself to the use of the ideal internal currency of the inconvertible note is a process which is now going on in India, as evidenced by, for instance, the increase in the note circulation?—I think that the use of notes is undoubtedly increasing.

1385. Do you think that, within a reasonable time and during the intermediate period, by the increase of facilities for the encashment of notes and by the increase in the facilities for obtaining small notes, what you describe here as the ultimate ideal might not be obtained without the intervening period of a gold standard?—I think it would be a very long period.

1386. It is a question I hesitate to ask, but at the present rate of progress how long do you think it would take?—Well, I would not care to say anything more exact than many generations.

1387. Are you of opinion that it is possible that the increased facilities for the circulation of gold might tend to immediately displace notes from circulation?—I think there might be a certain amount of displacement—at first at any rate.

1388. Would that be an extensive displacement in your opinion?—No, I don't think that the displacement in the circulating media would be very extensive.

1389. What makes you think that it would be temporary, and that the process would be reversed and would not be continuous?—People might, having not been able to obtain gold for some time, like it as a new toy, so to speak. And after a time, they might give up the use of it as being less convenient than notes.

1390. Then it is your view, as I understand it, that in the course of time the population would learn to be content with the right and the possibility of obtaining gold, and the confidence that would give in the note issue would lead them not to make use of the right, but to use the note?—I think so, yes.

1391. Might not that same object be served and accelerated, so as to reduce that period of many generations to which you have referred, by increased confidence in the ultimate gold value of the rupee as expressed by its exchange value?—It might to some extent, if you could give that confidence, but I am afraid it would be a little difficult to give that confidence after the fluctuations in the exchange value of the rupee in recent years.

1392. Would that confidence not be given by the adoption of a perfected exchange standard which worked automatically, independently of Government control, and exhibited a stabilised rupee?—The confidence might grow gradually, but I doubt if it would be there at first. When the system had been working for many years and it had shown that it did definitely establish the value of the rupee, the confidence might grow.

1393. Would not there be this difference from the previous state of affairs, that then the working of the system was not automatic; it was subject to Government manipulation?—Quite.

1394. Under such schemes as we have been outlining the system would be automatic and would be removed from Government manipulation. Might not that tend to accelerate the growth of confidence?—It would tend to, I agree.

1395. Finally, under this heading, I understood you to say in a previous reply that the demand of the public for gold is being satisfied but is still substantial?—Yes.

1396. By the continuance of the processes now at work, might we or might we not look forward to a period in which the demand of the public for gold, for instance, for the replacement of silver in hoards, would be satisfied by these natural processes, and thus a state of affairs would be achieved by natural processes which you propose to achieve by the adoption of the gold standard?—I think that, as long as the rupee remains full legal tender, a large portion of the hoards of the country will be maintained in rupees, and there will always be a potential demand for gold which remains unsatisfied.

1397. You are not of opinion that, by a continuance of the present processes, the hoards of the country will be in time converted from silver into gold as long as the rupee remains unlimited legal tender?—No, they may be replaced partially but not entirely.

1398. (*Sir Purshotamdas Thakurdas.*) With reference to the question from the Chairman regarding the exchange value of the rupee being more stable leading to better confidence in the rupee, would the exchange value of the rupee if stable be known to the masses and would they be concerned with it at all?—It would be known in the course of time, if it remains stable. It would not be known to them at once.

1399. Would they know it at any stage when it could be of practical use in the consideration of confidence of the part of the masses. Do you think the masses are aware that the rupee was at 2 shillings in 1920, and went down to 1s. 4d. after that, and to-day stands at 1s. 6d.?—I think there was a considerable amount of confidence in the masses in the exchange value of the rupee in 1913, when it had been stable for a matter of 13 or 14 years. But that confidence has been destroyed to a large extent by the events since 1914 and it would take some time to build it up again. It might be built up again in the course of 15 or 20 years.

1400. But you do think that the masses do follow the fluctuations in the exchange value of the rupee

with intelligence?—I don't know that they follow the course of the rupee sterling exchange.

1401. Or are at all in touch with the exchange value of the rupee?—No, but I think they know after a comparatively short time if it varies.

1402. They do?—Yes.

1403. Therefore, irrespective of the bullion value of the rupee this would affect the confidence of the masses—I mean the exchange fluctuations in the rupee would affect the confidence of the masses in the rupee. That is your opinion?—I think the recent exchange fluctuations have affected the confidence of the masses.

1404. (*Sir Reginald Mant.*) Mr. Denning, you said just now that gold would only partially replace rupees in hoards. The replacement is taking place at present at rather a rapid rate. Is it not?—As far as I can judge, it is.

1405. Judging from the imports of gold—there were 73 crores, imported in 1924-25 and from a slackening in the absorption of rupees, don't those two factors point to a very rapid substitution of gold for rupees?—I would not say it is very rapid. I should say it is going on, but it is difficult to say how rapid it is. The decrease in the absorption of rupees was from 762 crores in 1923-24 to 365 crores in 1924-25. It is not a very large decrease.

1406. What would you put the normal absorption of rupees at? We have not got any pre-war average here?—I can give you the average for the five years from 1909-10 to 1913-14; it was 8 crores 77 lakhs.

1407. The average was 8 crores and last year after at least three good monsoons the absorption was only 365 lakhs and also you had withdrawn the one-rupee note. Does not that point to a considerable decrease in the rate of absorption of rupees?—A considerable decrease. But it must be remembered that there was a special factor operating, namely, the extraordinary cheapness of gold relative to the pre-war price.

1408. But the substitution took place?—Yes. I agree that a considerable substitution did take place.

1409. (*Sir Henry Strakosch.*) Mr. Denning, you told us that you thought that if you gave the people gold, they would regard it as a toy and would prefer it at first and that you could afterwards take it away from them. How long would you think they would want to play with that toy and how long would it be before you could take it away from them?—My remark about a toy referred to the use of gold for circulation purpose. It is rather difficult to say how long they would want that toy.

1410. I want to get at the point which is of very great importance: when the people get habituated to the use of credit instruments including notes and to weigh which system is preferable, one should always remember that violent changes in all currency matters are very detrimental to the internal economy of a country. You said that it would take generations to get people habituated to accept the things under the present rate of progress. I should like to be able to weigh one against the other and to estimate the period which will have to elapse under the one and under the other system; and for that reason I ask you how long you think they would want to play with the toy and then be ready to give it up?—I am afraid it is a little difficult to assign any definite period. All that I can say is, I think it will be a shorter period.

1411. Suppose you let them play for ten years; would it be enough?—I should say that for a great number of people it would be enough; but for others it would not. I should say the use of the toy will gradually decrease.

1412. I suppose you would regard violent changes in prices as a serious defect of a system of currency. What I have in mind is this. If it is true the introduction of gold as currency in this country would appreciate the price of gold, that is to say, press down commodity prices and at the same time heavily depreciate the price of silver which is the substance in which a great part of the population has invested its savings, would you regard that as a thing to be avoided?—I would certainly regard it as a thing to be avoided if the adoption of a gold standard is going to mean a large movement in prices generally.

1413. And would you prefer a system which is less likely to lead to violent changes in prices?—Certainly.

1414. (*Sir Maneckji Dadabhoy.*) You said that the use of notes is unduly increasing. This increase in the use of notes was marked during the Great War only at the commencement; was it not?—I would say the increase arose mainly during the war; but the large increase that took place during the war has still continued.

1415. On the same scale?—I think so; if you would look at the figures of the note circulation, it is about the same scale.

1416. Then you think that they would be popular?—I think they are increasingly becoming popular.

1417. But at the outset of course these notes were converted for very heavy discounts, you know.—Yes, they were, the one-rupee note especially, when it was first introduced.

1418. And not those of other denominations?—Yes; at that time there was no silver available.

1419. That is why heavy discount was taken?—Yes.

1420. Is it not a fact that even now in the districts and in rural parts notes are not cashed without a discount?—I believe there is a discount, which really amounts to a money changer's commission. I do not think it is more than that.

1421. You will also admit that despite any change a large percentage of the hoarded wealth will continue to remain in silver?—I think some of it might.

1422. What will become of that part of silver which remains in ornaments: will that be melted?—No.

1423. A large percentage in the country is in the shape of ornaments; what will happen to that?—That would remain as it is, probably.

1424. You said about popularising these notes—in answer to a question by the Chairman—that you have to replace notes of lower denominations: what do you mean by notes of lower denominations?—I think that was a reference to there being no notes of low denominations in Great Britain; but personally as I said on Friday, when I think you were absent, I am in favour of re-issuing the one-rupee note.

1425. Would it be a very economic thing to re-issue one-rupee notes?—I think in the end it would cost about the same as the issue of the rupees, assuming that you have no special store of rupees to draw upon.

1426. (*Prof. Coyajee.*) As regards the giving up of the gold currency toy, can we draw some light from the case of Egypt which is very similar to that of India? They had gold currency for decades. Is there any reason for their giving it up?—I believe they had to give it up during the war; did they not? I do not know what is the currency in circulation in Egypt at present.

1427. They have been systematically drawing gold; of course they have been sending it back. In the crop season they draw it from England and they send it back later on. There was no giving it up. You told the Chairman that with the advent of the gold currency, gold will tend to displace notes to a certain extent?—Yes, I thing so.

1428. And the holders of silver ornaments will have this as their channel for changing their metal into gold; they will try and get their silver and get notes and present them for gold? Is not that likely?—I should not think so because the price of silver would presumably be low and I do not think they would be inclined to sell their silver ornaments,

1429. Don't you foresee that it might get lower as silver is sold abroad and therefore they might be keen on exchange?—That is a question of their appreciation of the movements in the silver market.

1430. (*Chairman.*) Continuing the memorandum, paragraph 11 says:—"(*a*) the total amount of rupees presented by the public for conversion would not appreciably exceed Rs. 100 crores." This, we agree, is the vital figure of the calculations involved in the introduction of a gold standard. It is, of course, a hypothetical figure, is it not?—Entirely; it is an estimate.

1431. I see that Sir Basil Blackett in paragraph 21 of his memorandum inclines to the view that 200 crores of silver rupees is an overestimate of the amount to be converted into gold and he suggests a figure of Rs. 150 crores, which means that it reduces the amount which will be presented through hoards by 50 crores. What, in your opinion, is the relative reliability of the two estimates?—Personally I am inclined to favour the estimate of 200 crores. It may be a little on the safe side. But I should not care to proceed on the assumption that the amount would be as low as 150.

1432. As to the 90 crores of silver rupees in the reserve, would you explain what you mean by the phrase 'valued at one rupee per standard tola'? That refers, as I understand it, to silver bullion—the present valuation in the accounts?—The present valuation for the purposes of the paper currency reserve accounts. Previous to the war the valuation of the bullion was the purchase price. After the war there were considerable difficulties in adjustment and the small holding of silver bullion at that time was definitely valued at one rupee per standard tola. Thereafter the accretions to the silver bullion have come from the melting of uncurrent coin, and in accordance with the Indian Paper Currency Act the silver obtained from uncurrent coin is credited to the reserve at the rate of Re. 1 per tola.

1433. We have dealt at some length already with the basis of this estimate of 100 crores. May I remind you that we hope to obtain a memorandum from your Department setting out the best bases which can be given as to the total amount of rupees in circulation, in hoards and so forth?—Yes, Mr. McWatters mentioned it to me this morning.

1434. In sub-paragraph (*b*) we get your estimate of the amount to be realized by the sale of the silver returned and the silver in the reserve, and the estimate is based on an average price to be obtained of not less than 24*d.*, per standard ounce. Can you tell us what led you to adopt the figure of 24*d*? —Any figure of that nature must to a large extent be a guess and one has to proceed on very general considerations. We have the fact that the lowest price of silver during the last century was 21*d.* per standard ounce. Gold prices generally have increased by 50 to 60 per cent. If the price of silver falls to a very large extent relatively to other commodities, then its uses for industrial purposes, subsidiary coinage and the like would probably increase and bring in factors which would tend to keep the price up. That is one general consideration. Another general consideration is that between 1922 and 1923 the world production of silver increased by 32 million ounces. This considerable increase in production did not appreciably affect the price; in fact there has been a tendency for it to rise rather than to fall. Looking for analogies, the nearest seems to be the sale of German silver in the seventies. At that time Germany sold one-and-a-half year's world production of silver and the price fell by 9*d.* The sales were spread over a period of nine years and the price fell 9*d.* during these seven years but there were other factors affecting the price of silver which tended to force it down.

1435. Do you remember what the price was at the outset when those sales began?—I think about 53*d.* Then we have the fact that the United States between June 1920 and March 1923 purchased 187 million fine ounces. Thus for three years there was a demand of about 60 million ounces per year on account of the United States purchases. This demand was removed from the market in March 1923. The removal of this demand did not affect prices appreciably. All one can say is that the factors in the silver market are uncertain and that it is difficult to give any definite figure, but there is reason to suppose that there are factors that may intervene to prevent what at first sight appear to be the staggering effects of these large sales of silver.

1436. You are assuming in this estimate that the sales are under control and spread over 10 years?—Yes.

1437. Supposing there was to be a great acceleration of the selling, either by the tender of hoards for gold through private channels, or by the sale of silver ornaments and other forms of silver as a result of the announcement of this policy, would that introduce a factor which might tend to falsify this estimate?—If such an event occurred it would, but such an event is, I think, not very probable.

1438. Would you amplify your reasons a little for viewing that as an improbable event?—Well it seems to me that the principal effect of an announcement that India was going to sell this amount of silver spread over ten years would be a large drop in the prices of silver straightaway, and the holders of silver ornaments would not be very much inclined to realize, because they would lose, and if they looked ahead they would say that this extraordinary excess of silver on the market would be removed again after ten years.

1439. Is it not a general experience of markets that a sharp fall produces a panic amongst holders, which results in wholesale selling at any price obtainable? —It does sometimes, but if that silver is in the form of ornaments, it is being definitely used; and it is a question whether ornaments would be melted down.

1440. (*Sir Reginald Mant.*) What is the equivalent of a dollar per fine ounce in pence? Can you give us that, roughly? The American purchase was at a dollar per fine ounce?—I am afraid I cannot say off-hand what the equivalent is.

1441. I only want to check your statement from these tables that there had not been any material fall in prices when America ceased purchasing?—I can give you the prices of silver in cents.

In 1921-22 the highest price in cents during the year was 73, lowest price 56;

In 1922-23, the highest price was 74, lowest 62;

In 1923-24, the highest price was 68, lowest 63; and

In 1924-25, the highest price was 72, lowest 63.

1442. When did they cease purchasing?—In March, 1923.

1443. We were told the other day that silver is produced mainly as a bye-product.—I believe so. According to the experts' report, which is an appendix to the Babington-Smith Committee's Report, about 80 per cent. of the world's production is a bye-product from ores which are primarily worked for lead, copper, zinc, and gold.

1444. Can you tell us whether that was the position of affairs in 1870 when Germany put a large amount of silver on the market?—I am afraid I cannot.

1445. If silver at that time was produced largely on account of its own value, the action of Germany then would probably check production, and that might account to some extent for the small drop in prices.—I can tell you that the world production was increasing, but whether this cause was operating, I do not know.

1446. So under present conditions in which silver is produced largely as a bye-product, you cannot expect a large decrease in production even though the Government of India were to make a large addition to the supply?—Not so large; but you can presuppose some decrease in production.

1447. If the addition to the supply will not affect a corresponding decrease in production, prices may fall very low, much lower than you anticipate?—I think they may. I do not pretend that my estimate is necessarily correct. I think further expert advice will have to be taken.

1448. (*Chairman.*) Now we come to paragraph 6, which raises the important matter of the reserves to be held during the intermediate period. There the effect is this, is it not, that you start at present with a total of gold and sterling of 109·7 crores to cover the note issue and the exchange reserve, and you propose that during the intermediate period you should hold only 56·9 crores?—That is correct.

1449. That is for both these purposes, as cover for the internal convertibility of the note issue, and as an exchange reserve for stabilization of the rupee?—Yes.

1450. Are you of opinion that, in view of the circumstances that the country will be passing through an experimental period as regards its currency in which the basis adopted depends upon many uncertain hypotheses which cannot be exactly calculated, a reduction of your gold and sterling securities to 56·9 crores as a cover for the purposes described is a measure of prudence, leaving a safe margin?—I would say it would be imprudent if you did not have behind you a backing of external credits or the possibility of getting external credits.

1451. Those external credits are credits used for what purpose?—Those external credits that you actually take would be used for providing the necessary gold to convert rupees into gold.

1452. Or rather thay can be used directly, according to your scheme, to avoid the necessity for remittance and thus to force an increased import of gold through normal channels?—Quite.

1453. You feel no doubt or hesitation about the reduction of the percentage to 30 per cent. from the present percentage during this intermediate period?—I do not think so. The 30 per cent. backing would appear to be sufficient, if you had the further backing of external credits which would be drawn upon as required.

1454. Any further extension of those external credits, as I understand it, would be an increase in the expense of the scheme?—Yes, but I do not know how far it would mean an increase in the expense. What I mean to say is that might we make an arrangement under which we might take a credit of 50 crores; we should have the drawing power, we will say, of 50 crores, but in practice we might only take 25 crores. The expense of obtaining that drawing power of 50 crores would not be so great as the actual taking of the remaining 25 crores. It is the expense of obtaining an option.

1455. (*Sir Henry Strakosch.*) I want to ask Mr. Denning what the difference is between a reserve and credits abroad. I understood you to say that a 30 per cent. reserve would be imprudently low unless facilities to raise credits abroad were assured. Could not one more simply express that by saying that a 30 per cent. reserve is not adequate? Leaving aside the question of cost, you are saying that a 30 per cent. reserve would be too low unless credits were available. Could not that be equally expressed by saying the reserve ought to be, for argument's sake let us say, 50 per cent.; you might feel safe with a reserve of 50 per cent.?—I do not think it is quite the same thing. After all, the reserve you want, assuming you are going to keep a definite amount and assuming that it is not going to be drawn on, is largely to give confidence.

1456. Let me put it to you this way. Simply as an example let us take a reserve of 30 per cent. and a drawing power of 50 crores. Very well, then the 50 crores, if you had them in sterling or dollar securities might yield you, say, a matter of 4 per cent. Now if instead of having your 50 crores of securities, you had a drawing power of 50 crores for which you will no doubt have to pay a commission, and on top of that in respect of any amount drawn the current rate of interest which would no doubt be higher than 4 per cent. I do not quite see why there should be any particular advantage from the expense point of view in not holding these reserves but to arrange for a credit?—That would depend on the rates, the rate of commission you would have to pay for the drawing power and the rate of interest you would have to pay on the amount you might draw; that would be a matter of calculation.

1457. But unless you could raise the 50 crores cheaper than 4 per cent. it would pay you to hold the reserve?—It depends on interest rates.

1458. Yes, I had assumed for the purpose of the argument that a reserve of 50 crores could be invested at an average rate of 4 per cent.—That is assuming you intend to borrow the whole definitely. In the first place, you have to decide what commission you would have to pay on the drawing power of 50 crores and you would have to pay that all through the process. Then you would actually draw, say, 30 crores. Therefore on the 30 crores you would pay the full rate of interest during the time you would have that money, that is, at the current rates; but on the remaining 20 crores you would only pay your commission.

1459. Therefore, may I take it that your proposal with regard to raising credits abroad is made merely to save expense, and that if you had the possibility of holding that amount in reserve you would do so?—Oh, yes, it is intended to save expense.

1460. Therefore, I think you admit that 30 per cent. is inadequate and if you had the means you would make it a higher percentage of reserve?—Yes, I would have a higher percentage of reserve if I had the means. I say you can substitute for the time being an external credit.

1461. (*Sir Maneckji Dadabhoy.*) I want to make clear just this point which I could not follow. You say that Government could permit this backing to go as low as 30 per cent. merely because there is further backing of external credit?—Yes.

1462. If there was not this backing of external credit, then Government would not permit it?—I do not think so.

1463. Now can you always depend upon external credit?—I am assuming that you have arranged your external credit before starting your proceedings.

1464. There is an element of risk about it, is not there?—No risk if you have definitely arranged your external credit.

1465. (*Chairman.*) There is an element of uncertainty as to whether you could obtain the external credit?

1466. (*Sir Maneckji Dadabhoy.*) Quite?—Yes, there is that element of uncertainty.

1467. (*Chairman.*) Then you continue in your memorandum to deal with the reserves under the third stage, *i.e.*, the final stage. You outline a reserve which will consist of 56·9 crores of gold and 37·9 crores of sterling securities. Sir Basil Blackett in his memorandum suggests a reduction of those figures which would give us 40 crores and 39·5 crores of sterling securities or gold. Will you tell us whether, after considering Sir Basil Blackett's suggestions, you desire to modify your views as to the original proposal?—No, I cannot say I do, because that point was put forward by Sir Basil Blackett in a preliminary discussion and I maintained that it would be very much safer to allow for the minimum of 50 per cent. of gold and sterling and 30 per cent. gold. I still think it would be safer.

1468. Is that the result of a general view or of any detailed calculation?—It is the result of a general view. The main point is that I think in a country like India you want rather higher real reserves than in a country where credit facilities and education are further developed.

1469. On the question of the alternative proposals as to the holdings in the reserves under the gold standard system, are there any supplementary questions? If not, then we come to the next paragraph, on which there is only one question I would like to ask you in order to supplement our knowledge. You refer to the possibility of postponing, by special arrangements, the conversion of large hoards of rupees held by the Indian States. In the first place, are there any figures available as to the extent of these particular holdings of rupee hoards to which you refer? —None at all. It is impossible to obtain any reliable information at all.

1470. What is the nature of the special arrangements which you have in mind?—Negotiations, with the Indian States concerned of which the net result would be that Government would induce them to hold up their demand. If you gave them a definite promise of giving them gold in exchange for their rupees at some time in the future, two or three years hence, you might get them to agree not to put in their hoards at once.

1471. What will the inducement be to the holder not to put in his hoard at once?—Well, largely to oblige the Supreme Government.

1472 On the basis of an arrangement under which there was no inducement offered at all?—Well, one might possibly induce them by giving them a small gain on the proceeding. But I think it will be possible to induce them without anything of that sort, in some cases at any rate.

1473. Finally at the end of the paragraph we come to another very essential figure, where you say that the aggregate amount of the first demand would not be very large and a stock of 50 crores of gold in Bombay would almost certainly be sufficient. I understand you are estimating that, of the 100 crores supposed to be held in hoards, not more than half would be presented for conversion on the initiation of the policy?—Yes, that is my assumption, during the first rush.

1474. Can you give us any basis at all for the estimate of 50 crores,—As I pointed out there is no essential difference between the conditions that are in force now and the conditions which would obtain at the initiation of stage I, except the psychological effect of the announcement that the full legal tender attribute of the rupee was to be taken away some years afterwards.

1475. May I ask you a question on that point. I suppose it will be the intention of the Government to make a full announcement at the outset as to the policy to be pursued?—I think so.

1476. And not to exercise any reservation in what is to be told to the public?—I do not think so. The only difference would be that Government would have to declare their intention to take away the full legal tender of the rupee ten years hence; I do not think that that announcement in itself, without any other change in conditions, would lead to a very large immediate rush for the conversion of the hoards into gold bullion.

1477. Let me put it the other way about. Why should anybody wait?—In considering that I think that one has to remember that it will take a long time for the knowledge to filter down; it will take a long time for the rupees to come in from the villages for conversion; and the Indian mind, that is the mass mind, moves rather slowly; so that, I think it is extremely unlikely that you will get gold pouring in very vast quantities in a very short time.

1478. (*Sir Maneckji Dadabhoy.*) You referred to these hoards of rupees held by Indian States and you say "the conversion of which it should be possible to postpone by special arrangements." Do you seriously believe that the Indian States will disclose their reserves to the Government of India?—I do not think they will disclose them.

1479. How would you force them to disclose them? —I should not force them to disclose the amount of their reserves; all I should do would be to ask the States not to convert their hoards immediately; I should not ask them to tell me the amount of their hoards.

1480. Besides British rupees most of these hoards also consist of their own silver coin?—I do not think that would affect our arrangements except in so far as that money was legal tender in British India.

1481. But would it not affect it if they melt it down?—The Government of India would not have to give gold for it.

1482. (*Chairman.*) In paragraph 13 of your memorandum you deal with some of the mechanism that would be required to work out the proposal. You say:—"Assuming stage (1) were introduced at a time when there was a considerable balance of trade in India's favour and Government made no remittances at all to meet Home charges from the sterling reserves, the rate of exchange would promptly go to the upper gold point and the Exchange Banks would have to import gold to cover their purchases of sterling." Conversely, what would be the effect upon the operations described in this paragraph, supposing that unfortunately they were to coincide with a bad year for exports and there was a balance in another direction?—Normally there is never a balance in the other direction. There is always a balance of trade in India's favour, leaving out the Government remittances. The effect, if the season were bad, would be to decrease that balance.

1483. The question was, perhaps, badly put. Supposing that the introduction of stage (I) were to be coincident with a year in which there was an abnormal reduction of the so-called favourable balance of trade, of the nature that previous arrangements led to a situation which required the sale of reverse councils, what would be the effect upon the operations described in this paragraph of such a coincidence?—The effect would be that the amount of gold imported to liquidate the balance of trade would be less, and it is possible that Government might have to import gold on their own account to supplement the supply brought in through the ordinary channels.

1484. Increasing to that extent the amount of the credits obtained?—Yes.

1485. And increasing proportionately the expense of the process?—Certainly.

1486. Taking things at their worst, a series of bad years might possibly lead to such a prospective expense as to make the scheme prohibitive?—I would say that it seems unlikely judging by past history.

1487. Testing all the possibilities, that would be the effect of a series of years?—It would be the effect, yes.

1488. (*Sir Maneckji Dadabhoy.*) First in connection with the question the Chairman asked you, you have stated that Government will have to import gold on their own account; you also said that in either case the net result would be that the private imports of gold would, shortly after the introduction of the new system, be at least as large as under the present system. So would there be competition between the Government price and the private import price?—I imagine that Government would sell gold at parity and as exchange would be at the upper gold point the bullion merchant would sell it at the same price.

1489. You don't think there would be any competition?—I don't think so.

1490. You don't think it would be necessary to allow for restricting import under licence?—No.

1491. It won't entail that, as was done during the war?—No.

1492. You feel quite confident on that point?—Yes.

1493. Then, the next point I would like to know is in connection with this heavy dislodgment of silver. How will it affect internal prices of commodities? Will it affect it at all?—Well, at the first stage, silver will be only coming in from hoards and therefore I don't think it would have any effect. The amount of currency in actual circulation would remain the same.

1494. That is at the first stage?—Yes.

1495. But when a certain amount of absorption has taken place, what will happen?—At the second stage gold would be substituted for rupees. There will

again be no change in the actual amount of the currency in circulation.

1496. In none of the stages will internal prices be affected?—No.

1497. Will it affect wages?—If it does not affect prices, I don't see why it should affect wages.

1498. (*Sir Alexander Murray.*) In connection with Mr. Denning's reply to Sir Maneckji, he makes no particular reference to the fact that 18 to 20 crores of silver will no longer be imported at that stage.—If Government sell?

1499. The imports last year were 20 crores. Well, that silver will not be coming in to balance trade.—Why not?

1500. Because you will be selling silver in India to meet all requirements.—Yes, well?

1501. Therefore those 18 to 20 crores silver will not be coming in, which means that there will be increased supplies of gold coming in. Last year's imports of gold were 74 crores in value. Add instead of silver, 20 crores, and against the Government remittances 46 crores, so that roughly we will say the imports may be 140 crores.—That is assuming that Government make no remittances at all.

1502. Which is a natural assumption to make in the first year.—I imagine the amount of the Government remittances will be decided by the state of the Government's gold reserve. If Government found that so much gold was being imported that it was being presented to them, they would step into the market and start making remittances, because they would see that the demand for gold was being more than satisfied.

1503. I am in fact accepting your own assumption in this part of your statement.—I quite agree with you. All I say is that Government *could* force. I don't say they would. The state of affairs would be that gold would come pouring in. In so far as that gold was not required to meet the public demand for gold it would be put into the Government reserves. If Government found gold coming into their reserves, they would know that the imports of gold were more than sufficient to meet the demand and therefore they could safely remit without producing a demand on their own gold reserves.

1504. (*Chairman.*) In the next paragraph there is a slight difficulty which I think is only a conversion difficulty. In paragraph 14 you allow for the conversion of 20 crores of the sterling reserves into gold to meet the first demand; and at the conclusion of the preceding paragraph you say the sterling reserves would be used up in meeting the home charges. At the conclusion of the first paragraph the sterling reserves, that is the sterling reserves less the 20 crores, are converted into gold. Is that the case?—Yes.

1505. In paragraph 15 you describe how the reserves are reaccumulated by the sale of silver until they arrive at the figure for which you allow in your constitution of the final reserve. The next paragraph, paragraph 16, suggests the following question:—You are assuming, for the safe introduction of the final stage, that stage (2), during which there will have been a voluntary undertaking on the part of the Government to give gold coin against silver rupees, shall be in operation for a period of under five years, and that the voluntary offer on the part of Government will have been taken considerable advantage of, thus diminishing the shock which might otherwise be experienced by the reserves at the inception of stage (3). One must, therefore, contemplate, must not one, that, supposing stage (2) were to turn out not to have the effect which you expect from it, that is, a gradual substitution of gold for silver in hoards, that the date at which it would be safe to introduce stage (3) might be postponed accordingly. To put it crudely, you are allowing for a good long effective (2) before you can get on to stage (3) and you must have it?—I think it is safer to have it. But I think that if you make gold freely available and if, as you suggest, the people do not take advantage of it, then they are not likely to take any more advantage of it if you undertake an obligation to do what you have been doing in practice.

1506. The extent to which they take advantage of it does not seem to be to effect the possible extent of the demand at the inception of stage (3).—It might to a certain extent but not very much.

1507. One has to contemplate all possibilities. How would the matter stand supposing stage (2) were not to be taken advantage of at all and stage (3) were to be introduced and still there was no demand for gold in exchange for rupees in hoards?—If at the introduction of stage (3) there were still no demand.

1508. If nothing still happens?—Well, then, I think, you would have to go on piling your gold reserves to a much larger extent before you could introduce stage (4). I have assumed during the stages (2) and (3) a large amount of gold would be taken from Government. Instead of pouring out that gold, you will pile it up, so that you would be in a better position to meet stage (4).

1509. At no more expense. Now you arrive at stage (4) with your reserves piled up as you describe. It might be interesting to contemplate what would happen supposing you introduced stage (4) and still the people in India did not respond to the policy as to limiting the legal tender of the rupee, and there was no great alteration in the amount of silver held in hoards?—If there were no response at stage (4) then you could after waiting some time and obtaining no response reduce your gold reserves safely. If it didn't come at the initiation of stage (4) probably it would never come.

1510. I must admit that it is somewhat of an extravagent hypothesis, but it may serve to elucidate all possibilities, as I understand. What would then occur? You would have accumulated a big reserve which you might not be able to reduce. You would have been involved in a certain amount of expense which, as I imagine, you would say was not wasted because it has enabled you to undertake the transition to the inconvertibility of the rupee in safety, so you would say that you were as well off as if the matter had proceeded in the way in which you anticipated?—Yes.

1511. (*Chairman.*) We go on next to the question of the amount of gold required, and that is a question which we might conveniently adjourn until after lunch.

(*Adjourned for Lunch.*)

1512. (*Chairman.*) Mr. Denning, the total amount of gold required after the initiation of your third stage is for the substitution of rupees. First of all you give the figure of 110 crores of rupees. How does that come up to 110 crores instead of 100?—I said in paragraph 11 (*a*) that the total amount of rupees presented by the public for conversion into gold would not appreciably exceed 100 crores. Then I take 90 crores as being in the paper currency reserve and in order to round off the figures, I take 110 crores as the amount presented by the public.

1513. *Plus* 56·9 crores of reserve, less 29·7 at present in reserve, giving you a balance of 137·2 crores, approximately equal to 103 millions sterling? Now that is the absolute drain of gold to India, so to speak, which would result from the adoption of this scheme?—Yes.

1514. In other words, to get an important point quite clear, India will have to take another £103 millions of gold from other holders of gold in order to carry the scheme out?—Yes.

1515. I should ask you here whether you could expand a little what weight you attach to the final paragraph of your memorandum.—'The drain of gold to India and the sale of large quantities of silver might have serious world consequences which would inevitably react on India, but it would probably be possible to avoid serious world disturbance by suitable arrangements'?—I think the gold difficulty and the silver difficulty are the two great difficulties in introducing a scheme of this sort.

1516. To take a few elucidatory figures, I believe that last year's total addition to the world's supply of gold was in the neighbourhood of £79 millions, was it not?—I believe it was.

1517. The total holding of gold in Great Britain at present is about 150 millions?—Yes, I think so.

1518. And, speaking very approximately from memory, the total supply of gold for monetary purposes in the civilised world is somewhere about 1,300 millions?—I am afraid I have no figure in my mind.

1519. We must correct it by more careful statistical information. In relation to the total production and supply of gold would you tell us what weight you attach to its possible cause on disturbance?—I think if India set out to do this without consulting anybody, without making arrangement with anybody, it might have a serious effect on the world prices; but there are special circumstances at present existing which might, by suitable arrangements, take away very largely and possibly altogether from the effect on gold prices. That is to say, the United States of America has a large amount of gold sterilised. If by an agreement with the United States we can in effect draw this 100 millions out of their stock which is sterilised, presumably, the effect on gold prices need not be very serious.

1520. It is an attractive suggestion. What form of bargain do you suggest?—I admit we have very little to offer in return.

1521. Have you been able to outline at all in your mind the nature of the financial arrangements with the Federal Reserve Board which will enable you to draw this gold holding from the United States?—You mean the actual machinery for withdrawing it.

1522. Yes?—I have no very clear outline in my mind. But I admit that we go to them with comparatively little to offer in the way of inducements to them to help us in this way. The only thing we can say is that it will assist in putting the currency of one of the great trading nations of the world on a sound basis and they have assisted other nations of the world in putting their currency on a sound basis by supplying them with gold credits.

1523. Is there any case known to you in which gold credits have been supplied for the purpose of supporting gold circulation?—No, there is none.

1524. (*Sir Henry Strakosch.*) You estimated the total requirements of gold would be £103 million sterling. Does that figure include the silver coin and silver hoards held in the Native States?—It takes no account of those except in so far as the silver coin is legal tender in British India.

1525. So that the figure of £103 millions would have to be increased by whatever silver emanating from those quarters may be expected to be exchanged for gold?—Yes, emanating from any source other than coined rupees.

1526. (*Chairman.*) I think we have dealt with the silver market at some length by anticipation in the course of our morning's proceedings, and we come now to the important head, the cost of introducing a gold standard. On this question of cost you have replaced your former paragraph 20 by a revised version which the Commission have now received, the substantial effect of which is to arrive at a diminished cost for the introduction of the scheme, in substitution for the figures of a somewhat higher cost at which you originally arrived. We, therefore, disregard your previous paragraph 20 and deal now with your revised paragraph 20. You point out, in the first place, that the real assets held in the Government reserves at present amount to 154·7 crores, of which the only constituent part which is based not upon realised facts but upon estimate is the value of silver in the paper currency reserve which is liable to those elements of uncertainty with which we have dealt?—Quite.

1527. Your next step is to assume that 90 crores of Government rupee securities would be held in the reserve as finally constituted. This, we observe, is the figure given by Sir Basil Blackett in his memorandum, as distinguished from the larger figure of 94·8 crores which was given in your lay out for the reserve?—90 crores was the figure given in my memorandum too—paragraph (*d*) (*iii*), "The remainder should be rupee securities of which not more than a fixed amount, say, 90 crores, should be Government securities."

1528. I think we shall find that in order to make your reserve balance against a total circulation of 189·5 crores, taking your gold and sterling securities at 56·9 and 37·9 crores respectively, we shall have to allow 94·7 for the rupee securities?—There might be rupee securities other than Government securities. They would be real assets.

1529. The excess over 94·8 crores might be bills; similarly 90 crores of Government securities would be held in the reserve as finally constituted. This gives you 99·5 crores of the above assets which can be used usefully for the reserves. That is, 189·5 *plus* 90 crores of Government rupee securities?—Quite.

1530. If you deduct 99·5 from 154·7 you arrive at a figure of 55·2 crores available for the cost of redemption of tho 110 crores presented by the public. You thus arrive at the conclusion that there are just sufficient real assets in the actual cash to meet the cost of redemption of rupees presented. Then I understand that you proceed by the following reason: That you have enough of real assets to meet the gross outlay for the redemption of rupees ultimately. You cannot realise those assets as soon as they are required because you have to sell your silver by degrees. Realisation of your assets thus lags behind the purpose for which they are required. In order to cover the lay out, you have to raise external credits and the cost of your scheme is to be measured, in the first place, by the expense of raising those external credits which are ultimately repaid?—Yes; that is correct.

1531. And, in addition to that, the cost of your scheme is measured by whatever larger amount of gold as distinguished from sterling securities you have to carry under the final arrangement in comparison with that which you now carry under the present arrangement?—Yes, broadly, I think.

1532. "The final recurring cost would be the difference between the interest now received on sterling securities in the paper currency reserve and the gold standard reserve and the interest which would be received on the sterling securities in the reserve as finally constituted." That is to say, the interest on 80 crores which is your present holding of gold in sterling securities, less 42·6 crores. I find difficulty in identifying this figure of 42·6 crores. Possibly you can identify that figure for us?—I think I can put it more clearly in this way. If you are going to have 99·5 crores of real assets in your reserve, of that 56·9 would be gold. The remainder of your real assets would be in securities, either sterling securities or rupee securities. I have assumed for the sake of calculating the cost that they are all sterling securities.

1533. So that you arrive at the 42·6 in the following manner: first of all you add the rupee securities to the gold and sterling securities, 90·56=146·9. Deduct that from the 189·5, total circulation, 42·6. What does this figure of 42·6 represent? Sterling securities and a certain number of rupee securities other than Government of India securities?—(Secretary): Yes.

1534. That gives you a loss of interest on 37·4 crores, and you calculate that at 3 per cent. How do you arrive at the figure of 3 per cent.?—That is roughly the interest we are getting on our short-term securities in the gold standard reserve.

1535. That is the final cost, not allowing for the cost of certain credits raised during the intermediate period?—Yes.

1536. And you then proceed to calculate upon such hypotheses as you can make?—Yes.

1537. You allow for the conversion of 20 crores of gold securities in the first place to meet the initial rush which, added to your 29·7 crores of gold already held, gives you approximately 50 crores for that purpose?—Yes.

1538. Your next step causes me some difficulty and needs I think a little elucidation. You say "Assuming that the whole of the stock of gold is used and

that the Government would have to hold a stock continuously during the transition period of a further 10 crores of gold securities to be converted into gold." I may explain to you my initial difficulty there. You have got 52·8 crores available, of which, by hypothesis, you exhaust 50 crores, leaving 2·8. You then assume that you must convert a further 10 crores of gold securities into gold. If that is to be done, it can only be done by either holding at your disposal 26·9 crores required for the reserve or by an immediate fresh borrowing?—No, I think I can put it in this way. I have assumed that at the first rush the whole of the 50 crores of gold held by Government is taken from Government, that is to say, it is not supplied through other channels, through imports of gold; but if that happens, then the Government would have to convert 10 crores of their securities into gold in order to keep a spare amount of gold.

1539. These will be gold securities in the paper currency reserve?—Yes. You convert another 10 crores of gold securities in your reserves into gold.

1540. Supposing, just to complete the process, you have to use that gold for the purpose of redeeming rupees, how do you replace it in the paper currency reserve?—I am assuming that after the first rush the whole of the gold required will be obtained by the imports of gold which Government will force by keeping up exchange to the gold point.

1541. I have not quite apprehended the process yet. What have you left in the form of sterling securities outside those held on account of the paper currency reserve during this period?—I go on to give the process further on. I say, at first you are going to have a demand of approximately 52·8 crores and I allow for the possibility that that demand will be on the Government's gold. Thereafter there will be no demand on the Government's gold as the public demand will be met from the increased imports on private account. That uses up 50 crores of the Government's gold but you have got 30 crores of Government securities. You turn 10 crores of those sterling securities into gold and you still have got your necessary reserve. Then I assume that the demand is met either entirely by the imports of gold as it will not exceed the amount by which Government can force imports of gold—it will not exceed 46 crores a year.

1542. What is the point of turning your securities in the paper curreucy reserve into gold?—Because part of that demand may come on the Government's gold, and you must have some stock continuously of gold.

1543. And if you use it?—Then the demand on your sterling securities will be 10 crores less, because your imports of gold will be less by 10 crores.

1544. Is the process this, that equivalent sterling securities will then be transferred back to the paper currency reserve to replace the gold that is taken out, that is lost, 10 crores?—Yes.

1545. Now we come to the next element of uncertainty, as to the amount of external credit which will be required. You say it seems unlikely that the maximum amount of external credit will exceed 30 crores and by the end of five years it will be repaid completely by the process. I do not think I quite follow what the nature of the maximum which you are estimating there is. Is it the maximum amount at any given time?—Yes.

1546. So that from first to last the total debt in respect of these borrowings will not exceed 30 crores? —Yes. I meant the amount of the credit will never amount to more than 30 crores.

1547. And you base on that the assumption that the average amount of the external credit will be 15 crores. Is that a conjectional figure?—I can tell the Commission how I arrived at it but I think they will have to take a pencil and a piece of paper to understand my elucidation. You have to redeem 110 crores of rupees of which you have sterling assets of the amount of 52·8 crores. Now if we assume during the first year that 92·8 crores of rupees are put in for redemption you have to obtain a credit of 40 crores of rupees less the amount you have realised by the sale of silver. Assuming you have realised 10 crores by the sale of silver the amount of your credit at the end of the first year will be 30 crores.

1548. As you yourself suspect, this is a subject we shall have very great difficulty in following unless we have it down in black and white. Might I suggest that we should have the advantage of your calculatious before we try to analyse the details of this most important calculation. I think what is wanted, if I may say so, is that we should attempt to get something in the nature of a balance sheet of assets and liabilities for each period of the proceeding, and that it appears to me from the figures you have just given to us it might be possible to put down, assuming these bases which you have had to assume throughout the calculation, the state of affairs at the end of the first stage and at the end of the second stage, and a final balance sheet at the commencement of the third stage? —I think that it could be done but it involves making more assumptions as to the rapidity with which the rupees will come in. I think I can give you something like that after a time.

1549. I may say the particular interest of dealing with the matter in that way is that it does help to elucidate just where the regions of assumptions are, just what is fact and what is necessarily based on hypothesis?—I think I could give you something; it would take some time.

1550. I think I might, if the Commission will allow me, go into the sort of thing that would be useful to the Commission in the way of a statement of the position; it might save you a good deal of time in shortening the proceedings and leading just to the actual points which would be most illuminating to the Commission, if the Commission would permit me to do that perhaps before the next occasion. At present I am afraid we are groping?—Yes.

1551. At any rate, as the result of your calculations you arrive at the following conclusions. The important conclusions are that the average recurring cost will be 75 lakhs on the borrowings and therefore during the first 5 years the average recurring cost will be $90 \cdot 75 + 165$ lakhs and then the annual cost during the second 5 years will gradually rise from 90 to 112 lakhs. In your second substituted paragraph you summarise the matter by saying the recurring cost will be 165 lakhs per annum during the first 12 years and 105 lakhs thereafter. Now I want to refer you, if I may, to Sir Basil Blackett's suggestions by which the cost might be still further reduced. With two we have already dealt. We have dealt with his reduced estimate of a basic figure of 100 crores for redemption. We have also dealt with his proposal in connection with the new Currency Reserve. There is another proposal made both in your memorandum and in his for reducing the cost to which reference has not yet been made, and that is the proposal for an import tax on silver. Will you describe how that tax would operate to reduce the cost of this scheme?—Well, broadly it would make the price of silver in India 4 annas an ounce higher than the price in the rest of the world and therefore would enable the Government to realise for their silver by selling it in India a price 4 annas in excess of the general world price. It would give Government a protected market for the sale of its silver.

1552. That assumes that the Government would find inside the protected market a sufficient demand for the whole of what it has to sell?—Yes.

1553. Is that a safe assumption?—Judging by recent imports it seems a fairly safe assumption. The net imports in 1922-23 were 80 million fine ounces, in 1923-24, 86 million fine ounces, in 1924-25, 95 million fine ounces. If we spread the sales over 10 years the amount of our sales will be 68 million fine ounces, which is considerably less than the average import of the last 2 or 3 years.

1554. What would be the social and political reactions of such a duty?—I think that the bullion interests would certainly protest rather bitterly

because they would say that an import duty without a drawback would distinctly interfere with the operations on the bullion market, because they not only import but export. Their operations extend to China and London and New York, and they would say it would seriously interfere with their business. They are specialised interests which would be hit to a certain extent by such an import duty. As regards the general effects, I cannot see that they would be of any great magnitude because it could not be said or it could hardly be said that Government was imposing an undue burden on the poor man who wants to get his ornaments in the form of silver because by Government action the price of silver would have been reduced very considerably, and by another Government action the drop in the price in India would be less than the drop in the rest of the world. The cheapness of silver for the ordinary consumer would have been brought about directly by one set of actions on the part of Government and another set of actions on the part of Government would tend to take away some of the decrease in the price. When the import duty was previously in force I think the main arguments against it were two, the effect on the poor consumer and the effect on the Bombay bullion market.

1555. (*Sir Reginald Mant.*) Mr. Denning, you gave us just now the figures of imports of silver in the last 3 years. How do those compare with the average of the 5 pre-war years ending 1913-14?—I have got the figures in crores but not in ounces—I am afraid I have not worked out the pre-war figures in fine ounces.

1556. That is my difficulty. The average in crores is 7·72 according to your statement comparing with an average of about 19 crores for the last 3 years?—Yes.

1557. Those last 3 years show a very large increase on pre-war figures. Isn't that increase partly due to the fall in the price of silver?—I should like to know the price of silver before the War.

1558. No. I do not mean before the War. I mean the previous years in which there was a very small import. The price was very high, silver was not obtainable and there were very small imports. Then the price dropped and you have 3 years of very heavy imports?—Yes.

1559. Those 3 years imports were rather abnormal, weren't they?—Yes they were.

1560. Now do you think it is safe to measure your future market on this basis during the next 10 years when you are unloading your silver, do you think it is safe to compare the absorbing power of India with those three abnormal years?—Not to the full extent of the demands of India for the last 3 years. But the average demand of India for the last three years works out at about 87 million fine ounces.

1561. Can you get it reduced somehow to a common denominator?—I could have calculations made if necessary.

1562. What I wanted to get at was how the average imports of the five pre-war years ending 1913-14 compared with the amounts that you propose to sell in the next ten years?—Well it is rather difficult to compare them on the figures given in Appendix II; but then I don't think that the pre-war absorption of silver is necessarily a good index of the permanent post-war absorption.

1563. But those pre-war figures include Government imports?—In Appendix II they do not include the Government imports.

1564. Why do you think they are not a good indication of India's future demand?—Because the whole basis has been changed.

1565. In what respect?—Prices have changed, the amount of the balance of trade has changed.

1566. Can you explain how that will affect silver imports?—I think it is quite possible that there may be a bigger surplus in India available for the purchase of silver. The indications are that there is a bigger surplus available for the purchase of precious metals generally.

1567. The point is this; these last three years have been years of abnormally large imports. What I want to know is whether you think it safe to base your estimate on these imports, whether it is safe to assume that India will be able to absorb silver on so large a scale for the next ten years?—Perhaps not absolutely safe. There is the possibility that the absorption will not be so large, I admit.

1568. And to the extent that you cannot sell in India your estimate of the gain from the import duty will be reduced?—I agree. Yes.

1569. And also you would have to export silver and probably further depress the price in outside markets?—Unless you spread the sales of silver over a longer term of years; and that also would increase the cost.

1570. (*Sir Henry Strakosch.*) With reference to the question the Chairman put to you regarding the social and political effect of a heavy drop in the price of silver you did not attach any great importance to the fact that the imposition of a duty of four annas on silver would prevent the people of India from buying silver at the true market price abroad. Might they not argue that the Government had deliberately depreciated silver to their detriment, and, having done so, they are imposing a duty upon it of four annas which would prevent them from taking full advantage of the drop in the price of silver to purchase silver at its true value abroad. Would they not have two points of grievance rather than one?—From the point of the seller of silver in India it would be an advantage, would it not, to have a four-anna duty.

1571. But the supposition is that the Government would have bought 200 crores of silver?—Yes. But I am talking of the point of view of the seller in the market; the man who wants to get rid of his silver would get a better price for it by four annas than if you did not put on an import duty.

1572. Did not you say this morning that the effect of the announcement of this policy would be to immediately depress the price of silver to so low a level that no sales would occur but rather that the people of India would buy at the cheaper price, so that there is no question of selling silver in India until it has reached a price which will be attractive to the purchaser?—I am taking the whole period of ten years. There will be transactions between various people in India. We have to look at it from the point of view of the seller and the buyer as regards the effect of the imposition of a four-anna duty.

1573. True. But we have started from the supposition that the people would not or could not sell at the higher price but would rather add to it by buying more silver because it is cheaper. We started from that supposition this morning and therefore we have got to regard the position of the Indian who has not sold his silver but wishes to add to his store of silver, and would he not have two grievances, (*i*) that that store of silver has been depreciated in value by the policy of the Government, and (*ii*) that having depreciated, the value of his store the Government imposes a duty of four annas which prevents him from taking advantage of the low level of silver abroad?—To take the second of the grievances first, my point is that it will be on account of one direct action of Government that the price of silver has gone down; it will be on account of another direct action that the price of silver in India has not gone down to the full extent that it has gone down in the world and therefore the answer to the consumer is "By two Government actions we have given you silver at a cheaper price than you would have got it unless we had taken either of these actions." I admit that he may think it a grievance that he cannot get it as cheaply as the rest of the world; but will that be a reasonable grievance?

1574. (*Sir Henry Strakosch.*) Thoroughly reasonable, I should say.

1575. (*Chairman.*) Does not political experience teach one that the public critics of the Government will have it both ways?—It is possible.

1576. As regards the action resulting in the fall of the price of silver, they would say that the Government had destroyed the value of their hoards. . As regards the action resulting in the rise of the price of silver they would say: "You are preventing us from getting the benefit of cheap silver elsewhere"?—They may say they have a grievance both ways; I quite agree.

1577. (*Sir Maneckji Dadabhoy.*) There is a great deal of sentiment in India on the question of an import duty on silver. Is it not?—I believe there is.

1578. And the masses generally for want of banking facilities, or rather the banking system having not sufficiently developed in the country, invest their money in buying silver generally?—Part in silver and part in gold.

1579. So you will admit that the imposition of a silver duty would be a tax on tho savings of the people?—To a certain extent yes.

1580. Why to a certain extent?—Because I combine it with the other action. I am not suggesting that we should now in the present circumstances put an import duty on the silver. What I am saying is that when we take the one action of redeeming silver and therefore lowering the price of silver, then we should take the other action also. The one would tend to counteract the other to a certain extent and the broad effect would be that silver would still be cheaper to the Indian consumer.

1581. Would it be cheaper?—Assuming that price of silver will drop more than four annas per ounce.

1582. Referring to the high prices of silver when silver went up after the War, was it not due partly to the wrong policy adopted by the Government of India in excluding Indian silver from the markets of the world?—That raises the discussion of a very large question. In the first place I should have to discuss whether the Government policy was wrong.

1583. Did not this prohibition of the exports of silver raise the price of silver in the foreign markets? You admit that we had a very large stock of silver before the War in India and if our markets had been unfettered and export had been permitted the silver price would not have gone to that pitch?—If the other circumstances had permitted such a situation as you assume, that might be.

1584. Is it a fact that by Ordinance after the War silver was excluded from the European markets and our exports were stopped?—Yes. Up till about June 1920.

1585. And did not that have the direct effect of raising the prices? If our stocks had been set free the price of silver would not have gone so high?—You have got to assume that the Indian Stocks would have gone out to the world; it does not follow that they would.

1586. With these high prices?—But consumers in India were still taking silver, they were still melting silver rupees.

1587. After the War?—Yes.

1588. It would have paid India to have melted down silver and exported it?—But Government had no spare silver and the people were still melting down our rupees at that time.

1589. What period do you refer to?—I refer to the period when the price of silver was so high and we were coining new rupees to meet the demand for silver rupees continually. Part of it was due to the melting of rupees.

1590. But you prohibited that by Ordinance?—Yes. But it was carried on; prohibition by Ordinance, I am afraid, did not prevent melting.

1591. (*Sir Maneckji Dadabhoy.*) My information is quite to the contrary.

1592. (*Professor Coyajee.*) You observe that the Government here would protect the market here for its silver by the silver import duty. Is it not equivalent to this, that it wants to transfer to the silver consumer a part of the cost of its gold standard?—No, there we come back to the same point. The consumer of silver would be better off as regards the price of his silver on account of Government adopting the gold standard policy; he would be better off to the extent, we will say, of 9 annas per standard ounce. Instead of making him better off by 9 annas, we shall have made him better off by 5 annas only because we should put a 4-anna duty on imported silver.

1593. But since as Sir Maneckji told us it has to be adopted as a sort of banking method, a fall in the price of silver does not benefit him indirectly so much as the rise of the local price of silver harms him?—If he is not going to realise his silver, it does not make any difference what the price of silver is.

1594. If it has to be invested it has to be realised later on?—I do not think that this 4-anna duty on silver should necessarily be a permanent duty. I think that it might be removed after the gold standard has been established. Then the price of the consumer's silver would automatically right itself.

1595. (*Sir Maneckji Dadabhoy.*) You said, Mr. Denning, that it would be necessary to spread the sales over a long period not only with a view to obtaining a better price but also with the object of diminishing the disturbance in countries having a silver standard and the adverse effect on the prosperity of the silver mining industry throughout the world. I do not exactly follow how you work it out?—If there is a large drop in the price of an article the producers of that article usually suffer and presumably the silver mining interests would suffer considerably if there were a large drop in the price of silver.

1596. Not immediately?—I think immediately because they would have stocks on their hands which they would have to sell at a much lower price; and as regards their future production, if they were to produce as much at the lower price, they would not get such large profits.

1597. But a large demand has to be met?—Certain quantities have to be raised to meet the demands of the world?—The world's demand would be decreased by the amount that India was selling; by 68 million fine ounces a year.

1598. (*Chairman.*) You say that with the reduction in the price of silver it is no longer worth while to work certain mines?—Quite.

1599. (*Sir Purshotamdas Thakurdas.*) Regarding Sir Maneckji Dadabhoy's enquiry about the year 1920, was it not about that year the Government of India almost escaped facing inconvertibility of the notes here owing to want of silver in the treasuries?—That was earlier; in April 1918.

1600. And it lasted till about 1920?—Yes.

1601. Regarding duty on silver one and the same man could not say that Government has depreciated his hoards by their policy and at the same time say Government are putting on a taxation on consumption of silver. The man who holds the hoard does not want to buy more; he is only concerned with the depreciation of his hoard. His complaint would be that by their policy Government is hitting him because they have really reduced the price of silver. He would have no complaint against anything that Government may devise to support the price of silver by an import duty?—Unless he wanted to add to his hoard.

1602. The man who wanted to add to his hoard is not a person with whom the average Indian public would sympathise very much, with his grievance at any rate?—A certain amount of sympathy has been shown in the past.

1603. Has there?—Yes, I think so.

1604. The main argument has been regarding the poor men who put their savings in silver, and Government taxing them as Sir Maneckji Dadabhoy said?—Is there much difference between hoards and savings of silver?

1605. That poor man would not like to buy more silver, when he has had it already depreciated. What I am trying to point out is, could one man have the same grievance both ways?—Not justifiably; but I think it may be made into one.

1606. Do you know of Government's policy of prohibiting, when there is famine or acute scarcity, export of food-grains?—They have done so.

1607. Thereby effectively bringing down the prices of food-grains and preventing them from rising further?—Yes.

1608. A man in that case who holds the stocks has a grievance against Government and their policy?—Yes. The producer certainly has a grievance.

1609. Have you found the average Indian public sympathising with his grievance?—No. I cannot say that they have.

1610. (*Chairman.*) Can you tell us when the last silver duty was put on and taken off?—I think it was taken off in 1920 and I think it was put on in 1910.

1611. Can you tell us the circumstances in which it was taken off?—It was taken off as a result of the recommendation of the Babington Smith Currency Committee. It was done largely to meet the popular demand. I think that was the main reason influencing the Committee.

1612. There was a popular demand that the duty should be taken off?—Yes.

1613. Which made itself felt in political regions?—Quite.

1614. It was recommended by the Babington Smith Committee that it should be taken off?—Yes.

1615. I have only one further question to ask you. We have referred, I think, briefly, in the course of the previous discussion to the question of an Indian gold coin. I think we should have on our record what, in your opinion, is the weighty argument in favour of that course, and what, if any, arguments against it?—I think I have dealt with that fairly fully in paragraph 21 of my memorandum on "A gold standard for India," and I have very little to add to what I have said there.

1616. You say "the putting of the sovereign into circulation almost necessarily implies that the rate of exchange would be fixed so that there would be an even number of rupees to a sovereign, whereas the rate of exchange is immaterial if India has a separate gold coin". At the present rate for the sovereign there would not be an even number of rupees?—No.

1617. Nevertheless you yourself express an opinion in favour of the fixation of the present rate?—I do.

1618. So that it does not imply such an absolute necessity as one might gather at first sight from this?—I am afraid I do not quite follow.

1619. "Putting the sovereign into circulation almost necessarily implies that the rate of exchange would be fixed at an even number of rupees to the sovereign." Nevertheless you are contemplating that a sovereign at the present rate should be in circulation?—I am using that as an argument against it. I say the arguments in favour of a distinct gold coin are as follows; then I give four arguments. The main argument in favour of the sovereign is that given by the Babington Smith Committee. "It would be more advantageous to India to continue to use the form of gold currency to which she has been accustomed and which is universally recognised for the settlement of external obligations."

1620. I cannot quite understand this. You recommend, for instance, under a gold exchange standard system that the sovereign should be in circulation?—No, I recommend that a gold coin of 20 rupees should be in circulation.

1621. Supposing the rate were to be fixed at 18d.; you say that would exclude the possibility of having the sovereign in circulation?—I think almost it necessarily follows as it would be very difficult to have a sovereign in circulation of which the legal tender value would be Rs. 13-5-4.

1622. Then you say: "At first, at any rate, a separate gold coin would probably not be used to such a large extent as the sovereign for ornaments and hoarding". What would be the cause of that?—Over a large part of India the sovereign is definitely preferred because the ryot knows what he has got. I believe in Bengal for instance it is a very widespread practice to take gold sovereigns to the village *sonar* and have them melted down and made into ornaments. The ryot thinks that he is likely to get real value for what he has given in gold, if the gold is in the form of sovereigns. Probably his predilection in favour of the sovereign is based on an illusion because I do not think it follows that the village *sonar* does not take a part of the gold and give him gold of less fineness in his ornaments. But there certainly is that predilection.

1623. In short, he would understand the sovereign, but at first he would find the Indian gold coin a less familiar form of gold?—That is what I meant really. I was trying to explain the use of the sovereign for ornaments and hoarding.

1624. (*Sir Maneckji Dadabhoy.*) This scheme of a new distinctive coin, would it not be looked upon with suspicion by the illiterate public. Would they not think that Government has some sinister scheme behind it, if you did not have the sovereign, but created this new coin?—They did not think that there was anything sinister when the Government issued gold mohurs in 1917-18.

1625. The gold mohur is not a new coin altogether. It is an ancient coin. They have been in the country over a very long period?—But not in that form. The gold mohur was an entirely new coin with "Rs. 15" on the back of it. There was nothing on it to show that it was a gold mohur.

1626. You will admit that it was not as popular as the sovereign?—I do not admit that; our experience was that it was taken very freely, much too freely for our liking.

1627. So that there would be no suspicion attaching to your new coin?—I do not think so.

1628. It will be taken as readily as sovereigns?—I think so, after a time any way.

1629. (*Sir Norcot Warren.*)—Is it not true that very few of these gold mohurs have ever come back?—Very few.

1630. (*Sir Henry Strakosch.*) What would be the effect of the introduction of a new gold coin upon the holding of sovereigns in this country which no doubt is large? Would they have to be re-coined, because I take it that the new coin would be the legal tender money of the country?—I mentioned that point I think, in the last sentence of paragraph 21 of the memorandum. I suggested that we should give them out during stage (I) instead of gold bars.

1631. Yes, but if you make the new gold mohur the legal tender money of the country then a sovereign will not be legal tender?—No, but at stage (I) of my scheme, there will be no gold coinage in circulation. There will be no legal tender gold coinage. That will come later.

1632. I am thinking of the later stage when gold coins do become legal tender?—Then Government will, I presume, have got rid of its store of sovereigns and there will be no question of re-coining.

1633. But the public will have them?—Oh yes.

1634. My question was, what is going to happen? Will they have to be re-coined?—No, not unless they are presented to the Mints as ordinary gold bars.

1635. But if they are presented and it seems likely that they will be presented when the new gold mohur is the legal tender money, then the whole of the sovereigns in the country will have to be re-coined?—No, I don't think so; because there is a tremendous demand in India for the gold sovereign merely because the people like that form of bullion and it is really a bullion demand and not a coin demand.

1636. But if that is so, then you will have people still possessing sovereigns which will be worth Rs. 13-5-4 pies. You won't be getting away from that difficulty?—Yes, but they won't be using them as a medium of exchange. They will simply be keeping them as store of value.

1637. Yes, but at certain seasons, stores of value come out into circulation. If you have one or two

bad seasons, these sovereigns will come out and circulate and they will be taken at that figure. If there are many sovereigns in the country, then the difficulty will still exist?—No, I am proposing to remove the legal tender attribute of the sovereign, so that it cannot be used as a medium of exchange. If they want to exchange their sovereigns they would do it in exactly the same way as their hoards of gold bars. In fact, the sovereign would be put on the same basis as a gold bar.

1638. (*Professor Coyajee.*) Is there any idea of demonetising tho sovereign then?—Well, I propose that its legal tender character should be taken away. I say there is no harm in doing that because in 1920 we offered to convert all sovereigns at Rs. 15 to the sovereign which was the legal ratio then. Since then, a new ratio has been introduced of Rs. 10 to the sovereign which has never been effective. That is to say, the sovereign has not been in effective circulation for many years.

1639. But has any other Dominion thought of demonetising the sovereign?—The sovereign is not legal tender in many Dominions. It is not legal tender in Canada.

1640. (*Sir Reginald Mant.*) Mr. Denning, you propose to demonetise the sovereign with a view to introducing another gold coin leading up to your gold currency—is not that your position?—Yes.

1641. Supposing it was decided to adopt a gold exchange standard without a gold currency. Would you still declare the sovereign not to be legal tender? —I should see no harm in doing so. It seems to me rather absurd to have a coin of the value of Rs. 13-5-4 pies as legal tender.

1642. Ah, but you are assuming now the 1s. 6d. rate. Assuming merely that we are seeking the ideal system and supposing it was decided that the gold exchange system is best—would you in that case demonetise the sovereign?—That would really depend on the rate of exchange adopted. I think I certainly should if the legal tender value at your rate of exchange would be Rs. 13-5-4.

1643. Interchangeability might be a factor in determining the rate of exchange to be adopted. You are rather putting the cart before the horse. You would say—demonetise because Rs. 13-5-4 is an awkward proportion?—If you put it that way, I don't particularly wish to demonetise the sovereign. But I do not see any particular harm in doing so.

1644. It is because you prefer the 1s. 6d. rate that you recommend demonetisation of the sovereign?—Well, yes, that is one of the reasons. Another is the question of a Royal Mint in India. It is a question which ought to be taken into account. I think you are examining Colonel Willis and he will give you more details as to the disadvantages of having a Royal Mint instead of a mint of our own.

1645. But under a gold exchange standard it would not be necessary to establish a Mint in India?—If you going to put gold in circulation to any appreciable extent.

1646. I was not assuming that it would be put into circulation. I understand the gold exchange standard you describe in these papers does not contemplate Government putting gold into circulation. Government is to exchange notes for foreign currency?—In the scheme I have outlined I have also assumed that Government would undertake to give gold coin in exchange for gold bullion. It is not a necessary feature of the gold standard I admit.

1647. I think you have described it on page 3 of your memorandum. Notes convertible into silver rupees or foreign exchange.—I admit that a gold currency is not a necessary feature of a gold exchange standard system.

1648. And it would not be necessary for Government to establish a branch of the Royal Mint in India?—Not necessarily in order to put a gold exchange standard into force. A gold exchange standard with a gold currency, yes.

1649. It would be with a gold currency?—Yes.

1650. But not with a gold exchange standard?—No.

1651. (*Chairman.*) There is only one other matter in which you may be of assistance to us. It will be useful some time in our inquiry, in relation both to the exchange position and in relation to the position of a possible Central Bank, to have a view of the position of the Indian Banks as regards home and foreign liabilities. Can you tell us whether there are any returns published or any statistics available showing the relation of the Indian liabilities to the Indian assets of the Indian banks?—I don't think there are any statistics from which you could get that information.

1652. At any rate there is no statutory requirement to show a return?—No.

1653. And you do not think there is any source of information on that subject?—The only people you can get it from are the banks themselves. I don't think there is any other source, because I don't think they publish their assets and liabilities in various places separately.

1654. I think I have come to the end of the questions I wanted to ask, subject to the possibility, Mr. Denning, that we may have the advantage of a further consultation with you after we have seen the analysis of the stages of the cost of the introduction of a gold standard?—May I suggest that you should do that in Calcutta, Sir, because I was going down to Calcutta to-night and, if you will leave that question until you come to Calcutta, it will give me more time to look into it.

1655. (*Chairman.*) I am sure it would be equally convenient to the Commission.

1656. (*Sir Reginald Mant.*) May I ask Mr. Denning if he can supply us with the figures that I asked for showing in fine ounces the imports of silver on private account in the 5 years ending 1913-14.

1657. (*Chairman.*) Sir Reginald Mant will let Mr. Denning have a memorandum showing precisely what it is that is required. Mr. Denning, I am sure my colleagues desire to thank you for your very helpful evidence in the course of these two days.

(*The witness withdrew.*)

SIXTH DAY.

Tuesday, December 1st, 1925.

PRESENT:

THE RIGHT HON. EDWARD HILTON YOUNG, P.C., D.S.O., D.S.C., M.P. (*Chairman*).

Sir RAJENDRANATH MOOKERJEE, K.C.I.E., K.C.V.O.
Sir NORCOT HASTINGS YEELES WARREN, K.C.I.E.
Sir REGINALD MANT, K.C.I.E., C.S.I.
Sir MANEOKJI BYRAMJI DADABHOY, K.C.I.E.
Sir HENRY STRAKOSCH, K.B.E.
Sir ALEXANDER ROBERTSON MURRAY, C.B.E.
Sir PURSHOTAMDAS THAKURDAS, C.I.E., M.B.E., M.L.A.
Professor JAHANGIR COOVERJEE COYAJEE.
Mr. WILLIAM EDWARD PRESTON.

Mr. A. V. V. AIYAR, C.I.E., } (*Secretaries*).
Mr. G. H. BAXTER,

Lieut.-Col. G. H. WILLIS, C.I.E., M.V.O.. called and examined.

1658. (*Chairman.*) May we have just for the sake of our record the official designation of the position you occupy at present Col. Willis?—I am Senior Master of the Mint, on special duty at present. I am now employed as officer in charge of the Security Press for printing stamps, postage and others, and the orginal idea was that the press should also print the one rupee note.

1659. As regards the former appointment, since when have you occupied that appointment?—Since 1922.

1660. And before that?—Before that, Junior Mint Master, since 1915.

1661. There was at one time a branch of the Royal Mint in Bombay: when was that first opened?—I am afraid I cannot give the exact date. It appears in the Mint Reports. Perhaps about 1919.

1662. And is that still open?—No.

1663. When was it closed?—It functioned for about a year.

1664. That was, just after the war period?—Yes.

1665. While it was functioning did the arrangements work smoothly or otherwise?—Perfectly smoothly. The Bombay Mint did most of the work. The Royal Mint only did the actual striking of the coins and the weighing. The whole of the melting, rolling, preparing blanks for coinage, was done by the Bombay Mint and we handed over to the Deputy Master of the Royal Mint the finished blanks for striking and final weighment.

1666. There was working at the same time in Bombay a Bombay Mint and the branch of the Royal Mint?—Yes.

1667. The branch of the Royal Mint was not a complete Mint?—It was supplied with the machinery from the Bombay Mint just for these two purposes only.

1668. Had the Royal Mint a separate plant and building?—A separate building; yes.

1669. How was the Royal Mint controlled as regards administration?—The Royal Mint sent out from Australia an officer and appointed him Deputy Master and an Assayer from London to do the assay. Actually the Deputy Master did assay work too, when required; he had been an assayer in the branch of the Royal Mint at Perth, Western Australia.

1670. Why was the branch of the Royal Mint closed?—There was no possibility of issuing sovereigns as they would go straight into the melting pot.

1671. I think I have seen it stated somewhere that there was a difficulty also in securing personnel for the branch of the Royal Mint in Bombay?—The Royal Mint may have experienced some difficulty. I understand there was some difficulty. But as regards the working personnel there was no difficulty. They were all supplied by the Bombay Mint; except the two officers, they imported no other staff. You are perhaps aware, Sir, that the Bombay Mint before the Royal Mint opened, coined far more gold mohurs than the Royal Mint actually coined sovereigns—the fifteen rupee gold mohurs.

1672. If it were decided to introduce a gold coin into circulation in India, do you recommend the continuance of the sovereign and half-sovereign, or are you in favour of a separate gold coin for India, and for what reasons?—I am in favour of a separate gold coin for India. For the sovereign, from the point of view of the practical minter, is an unsuitable coin in that its design is such—I am not talking of the artistic merits—but its design is such that it is liable to more wear than it should be. Therefore, if it circulates it is a wasteful coin.

1673. Was that the experience in Great Britain before the war?—I do not know if that is a point which has ever occurred to the authorities at Home. We are dealing with very large quantities of sovereigns as we have been in the past importing into India from various parts of the world and having to examine them all separately noticed the defects possibly more than the Home people have noticed them.

1674. You say that sovereigns have had more stormy careers?—Yes.

1675. So that, in regard to the sovereign, this consideration is more important in view of the work which the sovereign has to do?—Yes. But my objection from a minter's point of view to the sovereign is that it has not a sufficiently wide or deep rim to protect the device on it—and that would be one of the reasons why I should prefer not to have the sovereign in circulation in India. I am not one of those who think it likely that gold coin of any sort would really enter into circulation.

1676. We will come to that question in a little more detail shortly. Are there any other reasons to which you attach importance for preferring a separate gold coin?—The use of the sovereign as a suitable coin would depend largely on the rate which would be fixed as the exchange of the rupee. Unless it were an integral part of the sovereign, a sovereign would not be suitable if it is as at present a fractional 13⅓ rupees; it would make it an awkward coin to deal with. I should also prefer to have—as in every country in the world except Great Britain—to use 900 touch, instead of 916·67 which is the nominal fineness of the sovereign, because the lower touch would discourage melting for ornaments, and it would be harder for jewellers to work. It would cost them more to refine it, and therefore it would tend to

help to keep in circulation, and the alloy is very distinctly harder, so that the coin itself has a better life.

1677. Supposing, on the other hand, that the sovereign were to be selected for a gold coin in circulation, would you be in favour of re-opening the branch of the Royal Mint at Bombay or elsewhere?—I think, Sir, it would be a good thing. I should be distinctly in favour of that. But I should hope that it would be entirely dissociated from the Bombay Mint; because it would be so much more advantageous and so much safer to have the gold operations carried out in one building under one supervision.

1678. Would you not then favour the restoration of exactly the same system that was adopted before?—No; that was an emergency system which was expensive and unsafe. Luckily we lost nothing; but we might easily have had defalcations.

1679. Where was the element of unsafety?—The first element was in working the gold in the Bombay Mint which is not designed for the working of gold. It is sufficiently secured for the working of silver, but the extra precautions to make gold working safe do not exist and could not be improvised as we were doing such heavy work in other lines at the same time.

1680. If a branch of the Mint be re-opened, you would have it self-contained?—Yes, a complete self-contained mint.

1681. You told us that you would prefer to see the Indian gold coin of that measure of fineness which is more generally adopted than the British measure. Can you tell us any other particulars about what you consider the ideal separate gold coin for India, for instance, its size and weight?—I should not like to see too small a coin. The larger you can have your coin—so long as it is of useful denomination—the greater the gold content of the surface and therefore the less the wear. I have seen Mr. Denning's memorandum, and I am in agreement with him, and regard the 20-rupee coin as a suitable coin. Of course, the gold mohur was never fifteen rupees, though it was marked fifteen rupees; that was the trouble; that is, the old traditional gold mohur, though of course the word "mohur" referred not to the value in the old days, for we had up to 1891 Rs. 5 and Rs. 10 gold mohurs and also 30 rupee gold mohurs had also been coined.

1682. What was your experience of the gold mohur while it was being coined: was it satisfactory technically?—We had no difficulties at all. I think technically it was satisfactory, and I think if we had gone on with it, it would have been a popular coin.

1683. In your opinion the existing Mint is capable of producing a satisfactory special gold coin?—There is no difficulty, except that I should prefer to build a completely separate small part of the Mint and keep the gold mint separate from that for the silver and subsidiary coin.

1684. Is that for the sake of safety?—Yes.

1685. (*Sir Purshotamdas Thakurdas.*) Did the gold mohur that you coined in 1919 contain the same quality and quantity of gold bullion as the sovereign?—Exactly. The difference was only in the impress mark on it, the design and the size. It was slightly larger in diameter. It bore on the obverse His Majesty's head, and the reverse was a repetition of the old design.

1686. Barring the difference in the design, bullion for bullion it was the same?—Exactly.

1687. Did you ever observe any difference in popularity between the mohur as it was then issued and the sovereign?—No. That would have been impossible to observe because I understand that the gold mohurs that were issued almost entirely went to the melting pot.

1688. That was because of the gold bullion value being higher?—Yes.

1689. Can you come to any inference regarding the fate of the gold that may be issued hereafter, from that occurrence?—The conditions then were so exceptional.

1690. It was more an accident than anything else?—Yes.

1691. Did anything come to your knowledge that the people preferred the sovereign better than the gold mohur?—I do not think I have any actual experience. A great many people speaking to me have asked me why we did not make an Indian gold coin.

1692. But that would indicate as if they were in favour of a distinctive gold coin for India?—That was the tendency of their question.

1693. Would there be any difference in the cost to be incurred if a Royal Mint was working here as distinct from an Indian mint working here?—I think that since you would already have your supervising staff in the Bombay Mint which you have to keep in any case for the subsidiary coinage, the duplication of the supervising staff necessary to provide a branch of the Royal Mint would inevitably cause the cost of coining sovereigns in India to be greater than the cost of coining mohurs where one supervising staff would suffice.

1694. Was there a double staff in 1919 when a branch of the Royal Mint was working here?—As soon as the Royal Mint began to function or rather before it functioned—it took a long time to get into action—there was a double staff—the Mint Master and our assayors in charge of the Bombay Mint and the Deputy Master and assayer in charge of the Royal Mint.

1695. There was more or less a sort of transfer: there was no new staff imported?—Yes, the Royal Mint imported two officers, one from Australia and one from England.

1696. And that is all that would be necessary to import in the case of a branch of the Royal Mint being started here?—That should be the only expense. We contend that the Royal Mint works rather more expensively than we do here in Bombay but I would not like to labour that point.

1697. Could you tell us to what extent it is more expensive? Could you give us either the monthly extra expense in round figures or so much per coin minted?—I think it is hardly fair to debit the branch of the Royal Mint with a figure of cost based on actuals, started as it was for such a short time and to turn out so few coins. The actual cost of turning out those coins is not what would be incurred in an establishment that was running continuously.

1698. Do I take it that if the establishment was running continuously, the extra cost would be very little?—It would be the cost of the extra supervising staff.

1699. Amounting to how much per month roughly?—I think it would be safe to say that it would cost Rs. 10,000 a month.

1700. For these two men?—They would require more than two men to do the whole work. The Bombay Mint was doing 6/7ths of the whole work of coining those sovereigns.

1701. Then with a full-fledged mint working here, the extra cost would be Rs. 10,000?—I think so, over and above the cost of coining an Indian gold piece in the Bombay Mint.

1702. Are there any other conveniences or any other want of facilities which you anticipate of a branch of the Royal Mint working here as compared with an Indian Mint?—None whatever so long as it was a completely separate establishment.

1703. And a completely separate establishment for the Mint would involve an extra cost of Rs. 10,000?—Yes, but it would of course be necessary for the Bombay Mint to expand for the coinage of an Indian gold piece.

1704. (*Sir Maneckji Dadabhoy.*) The coinage of gold mohurs was very temporary?—It was for very special purposes.

1705. What were the special purposes?—Anything I say in this connection is merely hearsay, for my work is merely to produce the coin. I was not concerned with where it went to. I understand it was employed for paying for wheat, and I am not sure

whether it was not also for cotton, which were purchased under special conditions. I believe that was the reason.

1706. And the demand soon fell off?—The demand did not fall off. The demand was insatiable and could not possibly be satisfied.

1707. But was that the real reason for closing it down? What happened to these gold mohurs?—I believe they were sent upcountry, some proportion of them were sent upcountry in payment for purchases.

1708. Were they ever brought back for recoinage?—The surplus balance that was not issued was brought back to be melted down and turned into bullion.

1709. You said that you recommend a bigger coin, of the value of Rs. 20, because the wear and tear would be less?—Yes.

1710. What would be the wear and tear in 10 years' time, in grains?—I think it is impossible for me to say. I fear that the largest portion of the wear and tear would be illicit and would be caused by electrical sweating. That is the trouble we find, with the gold coin that comes to the mints for examination before being paid into the reserves. It is possible by electrical methods to remove about 5d. of gold from every sovereign, provided it is a new sovereign, and so keep within the limits of acceptable weight; and that is extraordinarily difficult to detect except for a man who is used to examining coin closely.

1711. Am I to understand that your new coin with a lower touch and harder alloy would be proof against these risks?—That would not make any difference to the electrical sweating of the coin but it would make some considerable difference to the legitimate wear and tear. The length of the life of the coin would be greater; it would require recoinage less frequently.

1712. But this difficulty has not been felt in England—of this wear and tear, to which you attach so great importance, in a place like England and other countries which coin gold coins. Why do you overestimate this factor?—I am afraid that I cannot accept the statement that it has not been felt in England: the cost of recoinage of England's gold sovereigns, which is done free, by the way, in England, has always been a very considerable factor.

1713. But then is it not a fact that this is the consequence of all coinage, this wear and tear must exist in respect of any coin, the rupees also? The same result would ensue in respect of our coin?—It is to minimise that and make recoinage less frequent. It is a costly process, and the longer you can avoid it, the better, the cheaper to the country.

1714. You have a great deal of experience of gold coinage. Do you think that a new coin will be equally popular like the sovereign which has a tradition attached to it in this country?—I can only speak from the analogy of our gold bars in the Mint in Bombay. I am talking now of the personal feeling of individuals in the country, I think that many of them would prefer an Indian gold coin. But every coin when it is turned out is tested by every country in the world to see how nearly it approaches the weight and fineness that it purports to have. Every country is very careful to make those tests.

1715. (*Chairman.*) By an independent authority?—In assay offices. We have for instance tested every gold coin that has come our way and we know at what rate we can afford to take that gold coin as gold bullion into the Mint. For instance a coin which purports to be 900 fine, if it comes from Japan we know it is very very near 900 fine; if it comes from France it is also very near but not quite so near,—I am speaking on the average; from Germany also. France, Germany and the United States are about on a par. Some of the smaller countries we are not quite sure about; and we take a rather larger margin in allowing for bullion for the sovereign. We are not prepared to give the standard of 916·66 because we find when we assay a bulk of sovereigns, partly owing to the dirt they carry but partly because every coin is on an average slightly lower than the standard figure, we have to make that allowance; and if I remember rightly the fineness we assign to sovereigns is 916·5. That is rather finer than America is prepared to allow. So that there is nothing sacred about a coin directly you begin to regard it as bullion.

1716. Quite true, but do not you think we have to make allowances for conditions in this country?—To meet prejudices, perhaps we should say.

1717. Certainly. Am I to gather as the result of your discussion that a new gold coin of Rs. 20 would be as popular as the sovereign?—I think it would be quite as popular, and I should even expect to find it more popular.

1718. And you expect it to command confidence?—If it does not immediately command confidence it will very shortly as soon as they find that there is the gold in it that it professes to contain.

1719. Can you tell us what effect it will have on the present holdings of sovereigns—the new coinage?—I think practically none. Those who are holding sovereigns know what they have got and are unlikely to go to the possible expense of converting them into anything else.

1720. It will have no effect then?—I do not think so. I see no reason why it should have.

1721. And I understand you are in favour of one coin of Rs. 20 value, not smaller coins of gold?—Beyond the fact that a smaller coin suffers much more in circulation from wear and tear, as they used to find in the case of the half-sovereign at home, I have no objection to a smaller coin, say, a Rs. 10 subsidiary gold coin.

1722. One more question I have to ask you. You said something about the Bombay Mint being altogether too detached. I did not quite follow you. Am I to understand that the Bombay Mint is not constructed for the coinage of gold and therefore unsuitable?—Gold can be coined there but it is being coined under unsafe conditions which require greater expense in watch and ward, in watching the gold, and it is designed for such enormous coinages that it is really not suitable for the comparatively small coinage which a gold coinage would entail.

1723. You want a smaller building with greater safeguards?—Yes, with special machinery for the gold coinage.

1724. (*Sir Henry Strakosch.*) You mentioned that a new Rs. 20 gold coin of a fineness of 900 as against the present finenesss of the sovereign of 916, would be more popular than the sovereign; but are you quite sure on that point having regard to the fact that a coin of 900 fineness is less suitable to be turned into jewellery than a coin of a greater fineness, and especially having regard to your remark that you think the new coin will not circulate, from which I gather that you mean it will either be melted down or be put into hoards?—When I say that I do not expect a large circulation of gold coin, I think people will use it as a store of wealth—I do not necessarily say a hoard but a way of keeping their reserve. Of course, the question of what is a hoard is a very difficult one; and I think they will use it more for that. My other point that it is less likely to be melted into jewellery confirms my opinion that it is more likely to be used in circulation and less likely to be taken out of circulation to be used as jewellery.

1725. But would it be as popular having regard to the fact that it is less suitable for turning into jewellery when the people of this country are in the habit of melting down coins for that very purpose?—I think that the tendency is and has been for a long time past for people to abstain from melting down the coins to a larger extent than they used to and to buy the gold, the fine gold which they so much prefer and which they now can get in convenient sizes and quantities. I do not think there is a great deal of melting of sovereigns now compared with what used to be the case.

1726. Now let us suppose gold coins were put into circulation. You told us that the habit is rather prevalent in this country to sweat them. Let us suppose that there were put into circulation, gold coins to the value of 200 crores. What do you

estimate the loss through sweating and wear and tear would amount to—to the allowed limit; I take it they sweat down to the allowed limit?—Just inside the allowed limit to be on the safe side.

1727. And you estimate that to be how many grains?—Well in the case of the allowed limit for sovereigns it is actually 6d. worth of gold per coin.

1728. That is per sovereign?—Yes.

1729. That would be correspondingly increased on the new coin?—If you allow the same percentage limit.

1730. And would you say that having undergone the process of sweating the coin will very much sooner be under the prescribed weight?—Yes.

1731. And therefore will have to be recoined more frequently than if it had not been sweated?—Yes.

1732. Now then could you give us an estimate of what that would cost on the supposition, as I said, that 200 crores worth of gold coins were put into circulation?—Well, when these coins are returned that bear signs of sweating to the Mint we do not receive them. A sweated coin, so long as we can detect that they have been sweated, is no longer acceptable either to the Mint or in a treasury. It is not received at home; if they see any signs of sweating on a sovereign the sovereign is cut and returned to you.

1733. So that those sovereigns will cease to be legal tender the minute they have undergone sweating?—That is so, Sir. The only thing is so many of them escape detection.

1734. But would a person in India accept a sweated coin when he knows?—No, he would not if he knew. They are very careful about it themselves.

1735. So that it is conceivable in a very short time the whole of the gold put in circulation would be of a character that would be unacceptable to a person as a medium of exchange?—That possibility might occur; yes.

1736. Now then, to go back to the actual loss this would produce. Supposing we have 200 crores, that is equivalent to 150 million sovereigns. At the rate of 6d. per sovereign that would be equal to $3\frac{3}{4}$ million pounds sterling?—I have not verified that.

1737. Well it is 150 milion sovereigns at 6d. per piece. That is, 3 million 750 thousand pounds and that would be the loss?—Yes.

1738. Therefore one has to contemplate the possibility of that loss being incurred and on top of that of the coins being really demonetised for the reason that they are no longer of standard value?—Yes.

1739. So that if we continue the argument, having put 200 crores into circulation, that 200 crores within a comparatively short time may become useless as a medium of exchange?—It is possible it might be. I could not expect it would occur, but it is possible that it might. I think the deterrent effect of refusing to accept coins at their face value or to accept them at all if they bear any signs of sweating would make people so careful that the sweaters would be discouraged to a certain extent.

1740. Admitting that was so, every gold coin would have reached practically the lower limit of weight?—Yes.

1741. So that if the sovereigns came back from circulation and were brought back to the Mint they would have to be recoined?—There would be a loss of approximately 2 per cent.

1742. And if that process were to be repeated, say, every 5 years, you can reckon that your cost will be roughly speaking what we have put down there, at $3\frac{3}{4}$ million for sweating and on top of that 2 per cent. for recoinage?—No, the cost of recoinage is not 2 per cent.; that is the loss limit.

1743. Including sweating?—Yes.

1744. That would be roughly £3,000,000 sterling.

1745. (*Chairman.*) What is the cost of recoinage?—The cost is practically identical with the cost of new coinage and may be taken at ·15 per cent., which is the actual cost of coinage, assuming that your overheads are properly divided owing to continuous work or an average amount of work. Overheads are so important that unless you average the work your cost may work to enormous figures if you are on slack work.

1746. (*Sir Rajendranath Mookerjee.*) Is it your experience all these years as Mint Master that the coin is reduced by 6d. through sweating or 2 per cent. on the whole?—Not all coins. Those coins which have been sweated and come to us in practically new condition are found to have lost just less than the limit allowed of 2 per cent.

1747. On your assertion, on the whole, as Sir Henry Strakosch put to you, in a few years' time there will be a tremendous loss to the country?—That is to say, if they sweat every coin that issues; but I cannot imagine that that would occur.

1748. It has never occurred before in the case of sovereigns?—In consignments of sovereigns from Singapore imported sometimes and paid to Government we have found every single sovereign sweated.

1749. It may presumably have come from the East.

1750. And the coins which come from India to you again?—Some are. Not all. The greater number of those that we know to have been only in use in India are not sweated but when we can trace a consignment from the Far East, we find practically all sweated.

1751. According to your theory if there should be a gold coin in India it very soon disappears?—I don't think very soon everything would disappear. But I am not in favour of a gold coinage for India or any other country in the world.

1752. That is what I was going to ask you. Have you any experience of other European countries about sweating or reducing of weight?—I think there is less sweating owing to the conditions in European countries. That there is sweating is undoubted. But it is visited with greater punishment when the crime is detected and consequently it is nothing like as common as it is in the East.

1753. Given a change of the Code here, do you think all that will disappear?—With advance I think that it will, yes; it should tend to disappear when people are more used to it.

1754. (*Sir Reginald Mant.*) I understood you to say just now that the people would become more cautious as the sweating increased and refuse to take coin, and that sweating would therefore be discouraged?—Yes.

1755. But did you not say that only an expert could detect that a coin had been sweated? How are the public to detect it?—It is not that the expert has any special knowledge but that he knows what to look for. I can tell at once if a coin has been sweated because I know what to look for and the public, once they find their coins rejected, will soon find out what to look for. We have had that occur in the case of rupees. We have had many rupees badly sweated and up to the limit; $6\frac{1}{4}$ per cent. I think is our limit for rupees and I have known rupees sweated right up to 6 and 1/8th per cent. But it is very clear and the public know and they can see these signs. It is known to shroffs and the knowledge filters down gradually through to the people. It is a case of education.

1756. You gave as your main reason for preferring an Indian coin to a sovereign the fact that the sovereign suffers more by wear and tear from legitimate use. But you said that the main danger was illicit treatment?—That is an argument against a gold coin in circulation at all.

1757. But does it not also diminish the strength of your preference for an Indian gold coin if the main danger is not legitimate wear and tear but illegal treatment?—Yes. It certainly does.

1758. Because I presume your special Indian coin would be equally liable to be sweated?—Yes. The only point there is that I hope that the sweating would diminish in time whereas the wear and tear cannot diminish.

1759. And another reason that you gave for preferring the Indian coin was that you cannot have the sovereign as legel tender unless it was exchangeable into an even number of rupees?—Yes. It would be very difficult to work on, on a long fraction or a long decimal of rupees.

1760. That is assuming that the present rate of 1s. 6d. is retained?—Or any other rate that did not include a 5 or a 0 as the last figure when converted into rupees. 5 or 0 should be the last figure. I think it would be very awkward to have Rs. 14 to the sovereign or even 16 as the Doctors have. It makes complications in conversion.

1761. What sort of complications?—Assuming that a man carries in his pocket four sovereigns; at Rs. 16 to the sovereign he has got Rs. 64 and it is not so easy as if it were Rs. 60 or Rs. 70 or some figure ending in a 0 or a 5. It does not fit in with our note denominations for instance. You would have no note, unless you go back to the one rupee note; you could not exchange a sovereign exactly against an even number of notes, if you had 14 or 16 to the sovereign or any figure except 15 or 20 or 10. It is merely a question of convenience but it would be very awkward to have a 12 rupee coin or a twelve rupee note. We should never dream of introducing a twelve rupee note.

1762. And you would rule out a proportion of 12 rupees to the sovereign on that account?—I think I should. I do not think it will be found at all convenient if the sovereign became a circulating medium.

1763. What about Rs. 12-8-0?—One is nearer that. But you will have to reintroduce my Rs. 2-8-0 note then.

1764. You get your factor of five?—Yes, when you have two sovereigns you could get Rs. 25; 12-8-0 would be more convenient than 12. Of course, it is purely a matter of calculation. Bankers and others will be able to say more on that point than I can say.

1765. (*Sir Reginald Mant.*) We are only discussing it from the point of view of currency.

1766. (*Sir Norcot Warren.*) What is the penalty for sweating in India?—I am afraid I cannot give the legal penalty. But very frequently what it amounts to is nothing.

1767. If the penalty were made very severe would it stop sweating?—If one could get convictions; it is a difficult thing to get a conviction. In fact I believe, in the eighteen years I have been in the Mint, I do not think we have been able to succeed in getting a conviction for sweating of silver.

1768. Why not?—It is very hard to bring it home and the difficulty is to get the Police to take a case up.

1769. (*Sir Alexander Murray.*) In 1918, when the 15 rupee Gold Mohur was put into circulation do you think we could draw any conclusion as to the preference shown by Indians for an Indian coin such as the Gold Mohur to the sovereign or any other gold coin in circulation?—No, certainly not. They merely took it as gold. They did not want coin in any sort then. All went straight into the melting pot so that it did not matter whether it was a sovereign or a gold mohur.

1770. The fact is that there was a prohibition in existence at the time on the importation of gold and therefore it was immaterial whether it was the English sovereign or the Gold Mohur? It would have been taken?—Any coin of any kind, francs and all gold coin of the world though prohibited from coming in did actually come in and went straight into the melting pot.

1771. It was immaterial whether it was an Indian or any other coin?—Absolutely.

1772. (*Sir Purshotamdas Thakurdas.*) If a rupee is presented that is too much worn out, don't you cut it and return it to the presentor?—So long as it has not lost more than $2\frac{1}{2}$ per cent. it is legal tender. Over $6\frac{1}{4}$ it is no longer legal tender.

1773. Supposing in view of the difficulty of getting convictions on what you call sweating, you did the same to the gold coin?—I said that it would be a great deterrent if people found that their coins on presentation were cut and returned to them because they had been sweated and worn beyond the limit; then they would say " this is not good enough. I have received this at Rs. 20 and now when I sell it to a bullion dealer in the bazaar I am only going to get Rs. 18-10-0 for it," and consequently that man will be more careful what he takes in future. He will look at the coins very closely and that in itself will be a deterrent to sweating.

1774. Could you tell us the difference between the loss on a cut rupee as compared with the loss on bullion value of sovereign?—It is very hard to say what that would be. It would depend so much on the man who held the coin after it was cut because he would then be forced to go into the bazaar and it would depend on his knowledge and powers of bargaining, how much he got for that.

1775. Supposing it happened to-day that a man was returned a rupee cut into two and he had to sell it at its bullion value and a man who has a sovereign worth Rs. 13-5-0 similarly has the sovereign cut and returned to him, what would be the difference between the values that he would get on his gold coin as compared with the silver coin?—He would get in each case probably something rather below the bullion value of the silver or gold as the case may be.

1776. How much below?—That, as I said, depends very much on the status and knowledge of the man holding it; and an ignorant ryot would probably get very much below.

1777. What is the best that a man, say, in Bombay or Calcutta might get?—With one sovereign cut he would not get very much.

1778. What would be the loss?—You know more than I do about that. I think the loss would be very considerable but I could not fix any figure.

1779. (*Sir Purshotamdas Thakurdas.*) Could Col. Willis give us a table working it out on the basis of the rates to-day?

1780. (*Chairman.*) Is it possible to work it out arithmetically?—It is possible to say what the bullion value of a sovereign which has just lost weight is. But it is not possible to say what the holder of a cut sovereign would get in the bazaar.

1781. (*Sir Purshotamdas Thakurdas.*) If you could tell us what the bullion value of it is to-day then if a man does not do equally well it is because he has not got either the facility or the knowledge?—He loses just over two per cent.

1782. (*Chairman.*) What is the capacity of the two mints for gold or silver coinage?—Can you give us the figures?—Neither of the mints has any specified capacity for gold coinage naturally since India has no gold coinage. Actually for silver coinage each mint is capable of coining six lakhs of rupees a day and they are designed for between 2 and 3 lakhs of pieces of subsidiary coinage but actually both of them can do more than that in a normal working day. There is no reason except wear and tear of the supervising staff why those figures should not be multiplied by two by working double shift.

1783. Both as regards rupees and subsidiary coinage?—Yes. The Bombay Mint actually put out 16 lakhs of rupees a day together with 6 lakhs of pieces of subsidiary coinage.

1784. To summarise, what is the total maximum capacity under pressure of both Mints for putting out rupees?—In rupees it is safe to say that they can continue to put out 25 lakhs of rupees a day, the two together; that 16 lakhs, we did under enormous pressure and I do not recommend it as a figure for continued working.

1785. I wanted to ascertain how much of the busy season demand could be met by fresh coinage after the demand had declared itself. The question I want to direct your attention to is this. Taking the beginning of the busy season, say, in December, and supposing that the purchase of silver began at once, then the silver would arrive before the end of January, I imagine?—Probably. It depends somewhat on where it came from.

1786. Supposing the demand continues till the end of the busy season, that would be, say, up to April?—Yes.

1787. On the supposition that there was an unforeseen demand for rupees that arose at the beginning of the busy season and the purchase of silver began at once, how much of the rupee demands to the end of the busy season could be met by fresh coinage at the mint?—May I just work it out; taking the end of April as the end of the busy season .... and we must assume for that a demand for rupees, of the order which has been experienced in recent years......with the balance of uncoined silver which the mints always have, they would presumably start to work on their average balance so that they could get to work a few days before the silver has arrived. The two mints are capable of producing 100 crores in that time. In time of pressure we work every day including Christmas day, and we did that for two years which will be more than adequate to meet any demand.

1788. You think 100 crores in three months is more than adequate to meet any demand experienced for additional rupees during the busy season?—Yes, I think there would be some difficulty in getting the silver here in time. I beg your pardon it is not 100 crores. I meant 25 crores in three months.

1789. Then 25 crores will be adequate to meet such exceptional demands as are likely to occur?—That I am afraid, Sir, I am not qualified to answer. May I say, Sir, that that includes at the same time the normal coinage of subsidiary coin which also goes up to a certain extent in these times of pressure, but if the subsidiary coin balances were sufficient, that 25 crores could be increased.

1790. (*Sir Reginald Mant.*) In giving the estimate of 25 crores you have allowed practically for three months coinage out of the four?—Yes, three complete months for coinage I have allowed and actual starting before our first shipments arrive because we carry balances in the mint which would allow us to get going.

1791. But do you think that a demand of that extent is likely to come so suddenly that you would not have made any anticipatory purchases of silver?—I am merely giving technical evidence here. I am supposed to know nothing of the purchase arrangements.

1792. Assuming that the authorities responsible for expanding the coinage had foreseen the demand and ordered silver in advance, you could then start earlier?—Yes.

1793. And if you coin for the whole four months, you could turn out another 5 or 6 crores?—Yes, certainly.

1794. (*Sir Henry Strakosch.*) May I ask a question? I am rather ignorant of the arrangements here. There are two mints in India, one at Bombay, one at Calcutta, and they are of equal capacity, I think?—Practically.

1795. You have told us that at one time under great pressure you have turned out 16 lakhs per day in Bombay?—Yes, and 6 lakhs of subsidiary coins.

1796. I take it that at great pressure it would be possible to turn out the same amount of rupee coin and subsidiary coin at Calcutta?—I am not quite sure about that. I have been in charge of both the mints and I should prefer to say that I think Calcutta's absolute record is 2,100,000 coins in a day and Bombay's is 2,250,000, there is not really much in it.

1797. That is on a double shift?—Yes, two 10-hour shifts.

1798. For how long could you go on running a double shift?—We went on for many weeks, but the result was, the men had so much money at the end of the time that we had a big strike, and I think if we had to go on much longer (luckily they only struck just when the pressure came off), there would have been serious trouble and I would not blame them. I wanted to strike myself.

1799. But in a real emergency it would be possible to coin under those circumstances 32 lakhs a day and possibly even more if the demand for subsidiary coin were less intense than the demand for rupees?—Yes, but I do not think labour would stand that very long. It is such an enormous strain.

1800. For how long do you think you can conveniently run?—I should not like to try it for longer than a fortnight at that rate.

1801. (*Chairman.*) Let me put it to you in this way. You have been responsible as technical adviser in regard to the supply of coins to the authorities. Supposing you were asked your technical advice as to whether, in view of the possibility during the busy season of an additional demand for 25 crores of rupees, you would advise that it was prudent to leave the supply of that demand to be met entirely after the demand had begun or whether you would advise that it is prudent, in view of the technical situation, to make provision beforehand so as not to have to make the whole provision including the purchase of silver after the commencement of the demand, what would be your advice to the authorities on that point?—I should certainly advise some anticipatory action in that respect to get some silver at least and also that coinage of the existing stocks of bullion should begin at once in the mints. It takes a little while to work up to full pressure. You cannot suddenly say "To-morrow we will start turning out 12 lakhs of rupees." You have first of all to get all your departments full so that you have sufficient stocks in each department to avoid any stoppages waiting for earlier departments. It takes, roughly speaking, to do the thing properly 10 days to get them into full swing. That would be done from our balances of bullion which we always hold in the mints, bullion under coinage or silver rupees under recoinage.

1802. It appears then you would probably say "I can do it, but in view of labour possibilities I would recommend you to have something in hand"?—Yes, Sir.

1803. (*Sir Alexander Murray.*) In 1918, is it not the case that you were actually turning out about 42 crores of rupees, and about the same amount again in 1919?—I believe you have the figures in the Currency Report. I am prepared to accept them.

1804. It shows you can maintain a high standard of output for some time?—Yes.

1805. (*Chairman.*) We have dealt with the question of the popular preference as between a separate coin for India and a sovereign. Now I want to ask you whether your experience enables you to express any view as to the preference of the Indian public as between the use of gold and silver coin for purposes for which either of those two may be used in circulation?—I think that since the majority of the people of India do not ordinarily have use for such a large unit of value as any gold coin which we could give them, the circulation of gold coins outside the big towns is not likely ever to be very big. Of course, I have seen periods when gold was in circulation to a certain extent and I understand that in the Punjab it was very largely in circulation. In Bombay and Calcutta I have been tendered sovereigns and half-sovereigns, but they were very rare things and the Indians were always prepared to take them and very often were prepared to give them during those short periods. But I do not think that we have any real data which could prove the popularity of the coin—of the one coin as against the other. The silver coin is the more convenient to the greater number of the people in the country.

1806. Does your memory of Indian conditions reach as far back as the times of the Report of the Fowler Committee—I think it was in 1898?—Oh, no; I started in India in 1900. Of course, I have read it.

1807. You have not any practical acquaintance with the effort to encourage a gold circulation made

after the report of the Fowler Committee?—I am afraid not. Those were my first years in India while I was still soldiering and I did not really take much notice.

1808. Then the effect of your answer, as I understand it, is that there has not been any evidence that the public is inclined to consider the use of gold as a convenience for the larger payments?—No, I think there has been no evidence of that. As regards larger payments, I understand that in the Punjab and elsewhere it has been used as a medium of exchange in large quantities, but it has never been what one would call a circulating coin.

1809. (*Sir Reginald Mant.*) That gold that went into the Punjab may have circulated for a very short time, but it soon disappeared, did it not?—Well, it was just before the war conditions came on. But I understand that in the few years just before the war there was an extension of the use of gold for payments.

1810. It disappeared as soon as the supply ceased?—Yes, and owing to the conditions regarding gold generally in the war time.

1811. But as soon as people found they could not get more sovereigns, they hid away the ones they had got?—Yes.

1812. (*Chairman.*) Now, proceeding from that, from your knowledge of the demand for currency and so on, what would be the effect on the general public and their habits and requirements as regards currency, of declaring the rupee to be no longer unlimited legal tender and introducing at the same time a gold currency?—I think that gold would probably displace all but very small hoards of rupees and small reserves of rupees for emergent use, whether gold coin or gold bullion.

1813. You distinguish, I imagine, between hoards and reserves in the sense that a hoard is something which is put by more or less permanently and a reserve is a sum which is held to cover as it were fluctuations and unforeseen expenditure?—Yes, that is the way I look at it. The gold might also displace notes held in hoard. I know that hoards are so held and it is possible that it might displace them but I am not sure that that would occur. The notes being payable in gold, I think that a large number at least would continue to be held in hoard. As I have already said, I do not think that the gold would enter much into the real circulation of the country.

1814. You referred to note hoards. Is it a practice to hoard notes at all—is the practice widespread?—I cannot say how widespread it is. I know of cases of people locking up notes for a long time. I can give one example of a man who locked up two thousand-pound notes of the Bank of England and they were produced to me in 1922, and an inquiry was made by the bank where they were presented whether they were genuine because they were long past dated and they were yellow. They were two notes that Queen Victoria had given to her munshi when he retired from her service I think in 1891 and they descended to his widow. On the death of his widow they were presented to the bank. So that that was a very obvious instance of hoarding. But I was thinking really of such a hoard as the Nepal Government had when they returned to us a large number of 1835 rupees. This I think was about the year 1912. They were returned to the Calcutta Mint and we purchased them from them for gold and currency notes. That was a case of alteration of the form only—the hoard was held.

1815. Amongst the general public do you think there is any tendency to hoard notes?—I think that since they have discovered that notes can be adequately protected in tin boxes from the white ant and the rat, I think they have discovered that for some purposes they are a convenient form of hoarding.

1816. Do you believe that improving the facilities for obtaining gold for these notes would tend to bring these hoards out?—I do not think so. I do not think it would do that. So long as they knew that they would be paid in gold for their notes I do not think it would draw them out. Probably at the start, yes, but very soon they would settle down. They would try to see whether they could get gold for notes and when they found that they could, they would be to a certain extent indifferent unless they wanted gold for specific purposes.

1817. You say there would be a certain replacement of silver hoards by gold?—I think that there would be a tendency to that on a very large scale.

1818. Do you contemplate that the process might be even on so large a scale as to be complete, so that all silver hoards would be replaced by gold?—Well, it is difficult to say that because hoards go right down even among the very poor. There might be quite a considerable lot held in small quantities which did not amount to a twenty rupee gold piece. I mean there is such a thing as a hoard of 10 rupees, and there must be a very considerable amount held in these small hoards. Everybody has buried away in a hut somewhere a small pot with a few rupees in it which is more or less sacred.

1819. Now as regards large hoards?—My opinion is that they would tend to be replaced entirely by gold.

1820. As regards circulation, I understand your opinion is that there would be no large demand for gold to replace these rupees in circulation?—I do not think so. It is purely a matter of opinion. That is my opinion.

1821. (*Sir Henry Strakosch.*) May I ask what is the estimated total amount of rupee coin which would be necessary to form the subsidiary coin of the country when gold is put into circulation?—It is very difficult to say because we do not really know what is the total amount of rupee coin required now. My own opinion is that it would differ very slightly from whatever the present figure is.

1822. Could you tell us what the requirements of a token coin of that character would be per head of population? Would that be helpful?—Well the only thing I can do is to make the guess of Rs. 5. That seems to me to be a very reasonable figure to take. There are so many to whom Rs. 5 would be a very big sum and on the other hand there are townspeople to whom Rs. 5 is so little.

1823. You think Rs. 5 per head of population would be a reasonable figure for the total circulation necessary to carry on the trade of the country as a subsidiary coin?—It seems to me that that would be a reasonable assumption.

1824. That would be about 150 crores?—Rather over it now-a-days.

1825. (*Sir Reginald Mant.*) You said that if gold coin were put into circulation you thought that it would replace silver in all the large hoards?—Yes.

1826. Is not that process taking place now?—There is a large amount of gold coming into the country. There were very large imports last year. Do you consider that a lot of these imports went into hoards in replacement of silver?—It cannot be in replacement of silver for the country as a whole because there has been no corresponding efflux of silver. Therefore the two are now lying side by side. The silver is still lying in hoards.

1827. You mean efflux from the country? But has there not been a decrease in the demand?—In the purchase, yes.

1828. No, in the demand for silver, in the absorption of rupees?—I see. I was thinking of silver bullion. Yes, that is so. It has been bought presumably with the rupees which have returned to us in reserves.

1829. But there has been a decrease in the absorption of rupees?—Yes.

1830. And an increase in the absorption of gold?—Yes.

1831. Does not that point to replacement of rupees in hoards by gold?—Yes, distinctly.

1832. And do you think that process is likely to continue? Supposing Government does not put gold

into circulation. Is it not likely that the hoards of rupees will gradually be replaced by gold imported through ordinary channels?—I think it is, certainly. They may always retain some rupees; but the bulk is likely to go into gold.

1833. So that the adoption of gold currency would only accelerate the process which in your opinion is otherwise inevitable?—Yes. May I correct that last answer? I do not think that it could accelerate it; because I do not think that Government can put gold currency into the country at a greater rate than they are now importing gold bar, so that it could not be any question of acceleration. Government could not put in a gold currency surely at the rate that the country is buying gold for the last few years.

1834. (*Sir Henry Strakosch.*) Could it not happen that gold coins are put into circulation and the import of gold continues at the same rate?—I think it would rather strain the resources of the world to produce the gold.

1835. (*Chairman.*) These matters are peculiarly, I imagine, within your knowledge—the total issue of silver currency, the total amount melted down by the Government and so forth?—Yes.

1836. Taking such aids to an estimate into account, have you ever considered whether it is possible to arrive at any approximate estimate by that method of the total amount of rupees respectively in hoards and in circulation at the present day?—It is extremely difficult owing to the difficulty to make any real good estimate of what has been melted down.

1837. Privately?—Privately, yes. That is the crux. We cannot say how much has been melted down. I think one is safe in saying that the amount still remaining of the rupees that we have coined is under 400 crores. I do not think it could possibly be over and I expect that if we could get a true census it would be less. But it is all of the nature of a guess. I have worked the figures in every way I can think of and I am never satisfied with the results I arrive at as being accurate. My results lead me to think that there is something considerably less than 400 crores; but I am not prepared to vouch for any figure.

1838. Then you have to start at the other end and say there must be about 150 crores in circulation, taking Rs. 5 per head?—Yes.

1839. And that would leave a figure, by a process of elimination, of something like 250 crores held in hoards and reserves?—My opinion is that it is less than 250 crores. I give it as the absolute figure. But I do not think it is so much.

1840. Something between 200 and 250?—I should prefer really 200 as safer.

1841. (*Secretary.*) 90 crores in the Government Reserve.

1842. (*Chairman.*) The Secretary reminds us of the 90 crores in the Government reserve?—My estimate of 400 includes the 90 crores.

1843. That would leave a figure of round about 150 as a maximum for hoards?—Yes; say 100 to 150.

1844. You are satisfied that it is not really possible to arrive at any more accurate estimate?—I cannot think of any method of arriving at an accurate figure.

1845. Except by such light as might be thrown on the situation by the rupee census?—It is apt to be misleading. The rupee census is undoubtedly wrong, unavoidably wrong. The same hoard that I was speaking of, that came back in 1912 contained—I am speaking purely from memory—two crores of 1835 rupees which vitiated all calculations made from the census.

1846. You say that it is an impossibility?—Yes. A great many more 1835 and 1840 rupees have come back to be melted at the mints than there could possibly be according to the figures arrived at by the rupee census. On the other hand, I think there has been, especially during the war time, much more modern coin melted down than has ever been taken into account by the rupee census.

1847. Where, then, you can test the census by ascertained facts, you discover discrepancies which teach you to view the results with caution?—Yes; any figures derived from that must be a very rough approximation.

1848. (*Sir Henry Strakosch.*) I should like to ask, do I understand you correctly to say that the census taken of rupees is misleading because it is conceivable and that to exaggerate, the whole of one year's issue of rupees may be in one hoard and remain there and therefore no coins of that issue may appear in the census of rupees and to that extent the census would be vitiated?—Yes.

1849. And is it the habit of the people who hoard in big amounts to take a big lump of rupees of one particular issue?—That is what we found; because they always like, in these big hoards, to get hold of new rupees and therefore they are naturally of one issue.

1850. Could you from the information you have estimate to what extent the error would have to be corrected by the ordinary mint census?—I am afraid I cannot make any suggestion. I quite failed to find any possible way of getting a figure. I have often tried. It must in the nature of things be guess-work.

1851. (*Prof. Coyajee.*) But such hoards as those are exceedingly few. Are they such as would trench materially on any particular issue?—There are a good many other large hoards that we know of besides. There are other big Indian States which were known to have had large rupee hoards.

1852. Is it not that industrial investment is taking up so many of the hoards?—I am not prepared to agree that industrial investment has touched any of those big hoards. It may have; but I cannot say.

1853. (*Chairman.*) You have no better information or statistics available as to the big hoards in the Native States than in the other case?—No. It is largely hearsay, and sometimes one gets actual facts and one does not know what becomes of a hoard afterwards, so that it is never safe.

1854. (*Sir Henry Strakosch.*) In view of what you said just now, is it correct to say that the census figures are more likely to be an under-estimate than an over-estimate?—No, I do not think so.

1855. Owing to the exclusion of a particular issue which may be in hoards?—No; I do not think one can say that. Possibly because it merely vitiates the figures as compared between one year and another, I do not think it vitiates necessarily the figures as a whole. One may draw certain deductions from these figures. But the other factor, the melting factor, is a very big one. We may say that the censors are wrong from two points of view, one that they do not allow for hoards and another they do not sufficiently provide for melting; and those errors may cancel each other or both may be working in the same direction. It is not possible to say anything.

1856. (*Chairman.*) I want to ask you about the facilities to the general public for refining silver and gold at mints. Are those facilities adequate at the present time?—There are no facilities whatever for refining silver. The gold refinery in Bombay is adequate. There is no gold refinery in Calcutta.

1857. There is no gold refinery in Calcutta and there is a gold refinery in Bombay which is adequate?—Yes, and we have not been pressed to put one down in Calcutta at all.

1858. And there is no silver refinery at all?—No. Such refining as is now done in the mints is by crude methods only adopted for emergencies in small amounts.

1859. Is there any demand for a gold refinery in Calcutta?—I know of none. It has of course been suggested, whether in a half-hearted way or not I can't say, but there has been no real demand, and that of Bombay is adequate to any demand that has been laid upon it.

1860. What is the position regarding a Government refinery for silver?—There has been some demand in Bombay; and, of course, in the war time we were forced to refine a certain amount of silver that came. But we had to do it in a bad and expensive way because we had no facilities. The Bombay market frequently talks about the need for a Government refinery for silver. I do not think there has been any demand in Calcutta, but I am not quite sure.

1861. Silver refining is at present done in the country by private firms?—Yes, by the old and crude method of lead refining, which is unhealthy and costly.

1862. Would you yourself advocate any extension of the facilities for refining either of gold or, particularly, of silver?—I think it would depend entirely on the demand of the public. You are speaking now, Sir, of the refining of any of our own rupees that may come back to us, or anything like that, when asking whether the Mint should increase their refining capacity?

1863. At the present moment I am dealing with the operations conducted on behalf of the Government?—I should be inclined to give the Bombay merchants what they want if they really want a silver refinery, a Government silver refinery, where they can have their bars refined, assayed and marked. I should be inclined to give it to them. At present they refine outside and bring their bars in to be assayed, which frequently means melting beforehand, so that it increases the cost of refined silver in the Bombay market, country-refined silver. Refining silver is done by much cheaper methods elsewhere.

1864. And you look upon that as work which might reasonably be done for the convenience of the public, if any private firm is prepared to put down a refinery?—There is no reason why a private firm should not put down a refinery, except that they would have to come to us for some years, at any rate, to get the fineness marked on the bars. That eventually would disappear just as it has in the case of refineries at home where certain fineness marks are accepted all over the world. We accept on silver certain marks as we know by experience certain assayers of refineries at home. We accept their finenesses; we do not accept all finenesses.

1865. And not at present any Indian?—No, they do not mark their bars; they bring them to the mint to be marked.

1866. (*Sir Maneckji Dadabhoy.*) What would be the cost of setting up a silver refinery?—May I please answer that not quite directly by saying that the cost of refining silver in fine ounces would amount to ·13 of an anna in a refinery—that allows no profits I may say—that is, with overhead charges, interest, depreciation and working costs, the cost would be ·13 of an anna including inevitable losses incurred in refining. That is in the case of a refinery of a reasonable size, not a very small one but a fairly large refinery.

1867. What do you base this estimate on?—I base this estimate on figures of the Denver, Colorado and Ottawa mints. Unfortunately the figures at my disposal are mostly pre-War. Neither of the mints concerned issue such detailed reports as they did before the War. I know there have been considerable developments and very much cheapening in the processes since, but I have not the details of them and have not been able to obtain them yet. This is an estimate based on pre-War practice, not on pre-War prices.

1868. If a refinery is started by private individuals, they would all the same have to come to Government?—At present, yes, until their own hall-mark became known.

1869. (*Chairman.*) You contemplate no doubt that if the Government is to undertake the work of refining for the public, the Government silver refineries should be made self-supporting?—Yes.

1870. And that an adequate charge should be made to cover the cost of the establishment?—As in the case of the cost of refining gold where we are making a profit. Gold refining is, of course, more costly than silver refining and the Government makes a profit out of the gold refinery part of the mint.

1871. (*Sir Purshotamdas Thakurdas.*) I think you said that you recommend complying with the feeling prevailing in Bombay for a Government silver refinery. Do you think they can give the Mint enough work to make it self-supporting?—I am not sure. Of course, in the old days when famine used to bring out silver in enormous quantities, it would have been very advantageous, but we do not now have all those waves of silver ornaments and so on coming to the Mint as they used to do in the old days.

1872. Your feeling mentioned just now that Government might comply with it is based on any calculation as to whether the thing would be paying or not?—Not as to the quantities. Here bullion brokers and people dealing in the silver market of Bombay are much more qualified to express an opinion as to what would be the quantities.

1873. What would it cost if a silver refinery were added to the Mint at present?—That depends, of course, very much on what scale the refining is done. On the assumption of large scale refining my capital cost is 6 lakhs and the working cost, including the value of all recoveries and so on, $2\frac{3}{4}$ lakhs. That is for a large refinery, probably larger than would be required, I should say for an expenditure of 5 lakhs one would be able to provide one for the public.

1874. For a monthly expenditure of how much if you reduce the capital by one lakh?—I should be inclined to reduce the working expenses by the same amount because the interest on capital and the depreciation which is considerable in the case of refining plants form the bulk of the annual expenses.

1875. (*Chairman.*) We find in the Report of the Controller of the Currency certain particulars as regards the counterfeiting of rupees, prosecutions of counterfeiters and so on. This is no doubt a matter with which you are specially acquainted. Is there any increase of that trouble in the country?—It is difficult to give a definite answer to that, but I think, with the spread of education it is a decreasing trouble. It is not likely to increase. The people are better able to detect the true from the false, and as they become more educated it would be still more difficult for the forger to get away.

1876. If they become more educated they become more skilled forgers?—There is a point beyond which you cannot go without putting more work into it than the coin is worth. It does not pay you to put a great deal of work into a counterfeit coin of the value of one rupee.

1877. It follows then that the temptation to counterfeiting has increased as the bullion value of the rupee has diminished? If the bullion value of the rupee were to be diminished, would not that increase the temptation to counterfeiting?—I do not think it would very much, because the counterfeiter expects such an enormous margin between his actual costs and the return he gets to make up to him for the risk of punishment. If we lowered it right down to 50 per cent. silver or some figure like that, then I should say there would be a great danger of forgery increasing as he would probably make it out of the proper metal and then it would not be possible to detect forgery at all.

1878. So that the temptation would reach its maximum were some base metal coin substituted for the rupee?—That is exactly what happened in the case of the 8 anna bit; there we used a cupro-nickel coin and forgery at once became rife. There was a high value coin of base metal and they went for it.

1879. But that has led to the recalling of the 8 anna nickel coin?—Yes.

1880. There is, I believe, fairly extensive counterfeiting even of the minor values of base metal

coinage?—Yes. It is very inferior and easily detected but sufficient to impose on the man who is in a hurry or the more uneducated.

1881. So that in general the danger of counterfeiting would have to be seriously considered if there were any proposal for the substitution of a base metal coin for the rupee?—Yes. I am afraid that would make it impossible to really consider it. The danger would be so great.

1882. (*Sir Henry Strakosch.*) It would not include nickel coins because of the difficulty of coining them?—The trouble is that nickel is very easily imitated—the colour and so on, by various alloys. So that nickel is not really a very safe metal from that point of view. It is difficult to coin, bnt they would not attempt to coin nickel; they would make an alloy of the same colour and the same specific gravity, so there is no possible test by weighing it in your hand.

1883. (*Chairman.*) Are you acquainted with the criminal law as regards counterfeiting?—The details of it? No. I cannot give you the penalties.

1884. You are not prepared to express an opinion as to whether it is efficient or sufficiently deterrent?—I think the law in itself is a sufficient deterrent. The powers under the law are sufficiently deterrent but they are so leniently interpreted in most places that the culprit does not get sufficient imprisonment.

1885. Finally, as regards the questions which I wanted to ask you, in the course of one of your answers you expressed an opinion to the effect that you are opposed to a gold coinage for India. May I ask whether when you expressed that opinion you were thinking of general considerations or whether there were any further technical considerations at the back of your mind?—I think when I said that, Sir, I qualified it by saying I was opposed to gold coinage for any country in the world. It is merely because I am opposed to gold as a circulating medium; it is so wasteful.

1886. Then that opinion was really based at the time in your mind on general considerations as regards the best system of currency?—Yes, on general considerations.

1887. Are there any further technical considerations as regards the advantages or disadvantages of a gold currency which it would be possible for you to advance for the assistance of the Commission?—No, I do not think I have any other points to make. I have made them all on the technical side.

1888. (*Sir Maneckji Dadabhoy.*) Almost all the leading countries in the world have now accepted a gold currency, have they not?—The gold standard?

1889. Yes?—They are not quite the same thing.

1890. I know they are not quite the same thing, but now gold coinage is a feature of many civilised countries?—No, I do not think I am prepared to accept that.

1891. What countries, would you say, are excluded from gold coinage?—It would be shorter to give those that are included. When we get outside the United States we do not get any other country in which there is an effective gold currency. The gold may exist in the form of a coin in treasuries and so on, but it does not circulate.

1892. Have you got any suggestions to make or do you entertain any apprehensions regarding the real impediments to circulation in this country?—Once the demand for gold in hoard is satisfied, if ever, there is no reason why a gold coin should not circulate to a limited extent, to such extent as the people find convenient. I am not able to suggest to what extent the people will find it convenient to use a gold currency. It could only be a pure guess, I am afraid, as to how far they would find it convenient. If they find it convenient then they will come to the Mint with their gold and have it coined into gold currency. If they do not want it, then they won't bring it. It appears to me to be automatic once the demand for gold for hoard is satisfied.

1893. (*Sir Reginald Mant.*) Colonel Willis, you say you do not advocate a gold currency for India. Do you advocate the removal of the legal tender character of the sovereign?—I do not know that it would make any difference at all. I should not be prepared to advocate it, but I do not think it matters.

1894. At present it does not of course matter, because the sovereign is valued at Rs. 10; it is undervalued; but that of course could not remain on the statute-book, unless the Rs. 10 ratio were to remain. The law would have to be amended, if the Rs. 10 ratio were abandoned. But would you substitute another ratio or would you demonetize the sovereign, assuming that another gold coin is put into circulation in its place?—It is rather difficult to answer that.

1895. (*Chairman.*) That is, assuming also the continuance of the present standard?

1896. (*Sir Reginald Mant.*) No, Sir, I am not assuming that. I am assuming that we abandon the Rs. 10 ratio and leave it an open question as to what the future rate will be.

1897. (*Chairman.*) Yes, but assuming an exchange standard.

1898. (*Sir Reginald Mant.*) Yes, a gold exchange standard.—(*Colonel Willis.*) I think it is really immaterial whether you demonetize or make it legal tender at the new rate. I do not think it really matters.

1899. (*Chairman.*) The Commission is very much obliged to you, Colonel Willis, for your evidence to-day.

(*The witness withdrew.*)

SEVENTH DAY.

Wednesday, December 2nd, 1925.

PRESENT:

THE RIGHT HON. EDWARD HILTON YOUNG, P.C., D.S.O., D.S.C., M.P. (*Chairman*).

Sir RAJENDRANATH MOOKERJEE, K.C.I.E., K.C.V.O.
Sir NORCOT HASTINGS YEELES WARREN, K.C.I.E.
Sir REGINALD MANT, K.C.I.E., C.S.I.
Sir MANECKJI BYRAMJI DADABHOY, K.C.I.E.
Sir HENRY STRAKOSCH, K.B.E.
Sir ALEXANDER ROBERTSON MURRAY, C.B.E.

Sir PURSHOTAMDAS THAKURDAS, C.I.E., M.B.E., M.L.A.
Professor JAHANGIR COOVERJEE COYAJEE.
Mr. WILLIAM EDWARD PRESTON.

Mr. A. V. V. AIYAR, C.I.E. } (*Secretaries*).
Mr. G. H. BAXTER.

Dr. PRAPHULLACHANDRA BASU called and examined.

1900. (*Chairman.*) I understand that you are a Doctor of Philosophy and Economic Science and Vice-Principal of the Holkar College, Indore?—Yes.

1901. Since when have you occupied that position?—It is about eight years since I have been there.

1902. And before that?—I was a lecturer in economics and history in the Calcutta University.

1903. The Commission has had the advantage of a very full memorandum* from you for which we are obliged to you. I will now, if I may, ask you a few general questions in order to bring out the principal points in your memorandum, both to ascertain the precise emphasis which you lay upon various considerations and in order to elucidate any matters that seem to require further elucidation. I understand in general it is your view that the ideal to be aimed at is the establishment of an international gold exchange standard, but that pending the realisation of that ideal you propose that India should take steps to establish a gold exchange standard of its own?—Yes. My idea is to go back to the position where India was up to 1914 and strengthen the currency by having a very big gold reserve. My idea is that just for the present we should try to re-establish the Indian currency as it was up to 1914, and for that purpose try to build up our gold standard reserve.

1904. I gather then that the system which you propose is one which is in several essentials similar to that which was in use in India down to 1914?—Yes.

1905. As regards one proposed improvement, you suggest an increase in the gold standard reserve?—Yes. And another suggestion which I have made is that the exchange reserve should be entirely separated from any other reserve.

1906. If you please, I will take that a little later. You state in your memorandum that, in your view, the system in force in India down to 1914 worked well and economically?—Yes, that is my view.

1907. On the other hand, you propose that the future system should be a gold exchange standard rather than a sterling exchange standard?—Yes.

1908. Can you briefly indicate what are the reasons which suggest to you the change from a system which, as you say elsewhere, has worked well and economically?—I would not call it exactly a change. Up to 1914 sterling was also equivalent to gold. So, when our currency was fixed in terms of sterling, it was really fixed in terms of gold. But then during the war when the sterling diverged from gold, then we had our difficulties. So, in order to avoid any such difficulties in future when sterling may diverge from gold, I would like to fix our currency in terms of gold rather than in terms of sterling.

* Appendix 12.

1909. You look upon it as a possibility which has to be taken into serious practical account that sterling might once more become divorced from gold?—If it is not divorced from gold, then there is no harm in fixing our currency in terms of gold because it will be fixed in terms of sterling also. So by bringing about that change, if sterling does not diverge from gold, then I should think that we are not making any change at all, whereas if sterling is divorced from gold then we shall be fixing our standard in terms of a stable currency rather than one which may diverge from gold.

1910. I understand that in one part of your memorandum you suggest the substitution of gold bills for sterling bills in settlement of India's international account. Will you, in the first place, describe a little more in detail what the nature of the gold bill would be, and how this mechanism of gold bills would work?—Against the reserve that India has kept abroad, India will draw bills in terms of gold, and the suggestion that I have made, therefore, was meant to be applicable specially at this time, when sterling is not equivalent to gold, and, therefore, if gold bills are drawn in India against our gold reserve, and then when this gold bill reaches England this will really supply in England gold bills drawn upon other countries. I was thinking at that time of the United States, which is at present the only country which has got a gold currency. If such bills are supplied in the English market as a result of export from India to England, that is by increasing the supply of gold bills in England on America, it will thereby bring the sterling nearer to the dollar.

1911. Who would your gold bill be drawn upon?—We could have accommodation in America if we had really a gold reserve. Our difficulty was that we had no gold reserve. It was invested in sterling. When we get our gold reserve as such then you could get accommodation anywhere in the world, and when India had a favourable trade balance greater we could draw bills on our gold reserve in America. This would also help to bring sterling towards the dollar. As a result of the breakdown, we had to depend upon the American cross rate. But India had absolutely no control over the cross rate, which was determined by the balance of trade between England and America. If we are dependent on any cross rate, we ought to have more influence over that rate, and if we can draw gold bills upon America then we could have some influence upon the dollar-sterling rate.

1912. Does the system then involve holding a part of the reserves in the United States?—That is what we did during the war. The Secretary of State borrowed money in America, and for some time bills were actually drawn on America.

1913. Is that what you propose should be the new practice under your proposal?—That is what I have suggested: that our gold reserve should be dispersed in several countries till the time when the international system is so developed that gold in one place can secure accommodation in any other country.

1914. We live in a world where peace between the nations is not at any rate absolutely secure. Do you see any political danger of the demobilisation of reserves at a time when they may be most wanted if they are scattered in many foreign countries?—Of course, that is purely a political question; but unless there is such an international guarantee, as I have suggested here, it is impossible to work it.

1915. But, pending the time at which we may arrive at the ideal of an international guarantee, you would be prepared to take the risk of whatever political upheavals are involved?—Pending that I will keep the gold reserve in London, but in the form of gold so that it may be transferred from one centre to another if there is any necessity for it.

1916. As I understand it, then, your scheme as to the gold bill to be drawn upon reserves in various gold standard countries in one form or another really depends, as a condition precedent, upon the establishment of some international guarantee as to the sanctity of such reserves?—In the developed form in which I have advocated it here, it will be so.

1917. In your preference for a gold exchange standard system as compared with a sterling exchange standard, have you taken into consideration the proportion of India's trade which is done with sterling-using countries?—Yes, foreign trade with other than sterling-using countries suffers because of the fact that the rate of exchange is fixed in terms of sterling, and if India wants to develop trade outside the sterling-using countries, I think this will be a help, although not a very important help; drawing bills in terms of gold will be a help in developing India's trade in markets outside sterling-using countries. Of the sterling-using countries the most important, I suppose, is England barring that, our trade with the colonies is very small, almost insignificant.

1918. We have been told that as much as 90 per cent. of India's foreign trade is settled in sterling, even though it may be done directly with countries which are not sterling-using. Is it not probable that that would continue to be the case, even though the foreign trade of India with non-sterling-using countries were to be developed and increased?—Yes, that will be so; it is mainly because London is the monetary centre of the world: Bills drawn on London have a ready sale all over the world, and I do not think that will be disturbed in any way if we replace the sterling by gold. As I said so long as sterling and gold are the same, there would not be any change at all.

1919. You would not then view it as a consideration of important practical convenience that the definite link between the Indian currency and the standard should be with that currency in which so large a proportion of India's foreign trade is settled?—There is certainly an advantage in that, but the difficulty, as I pointed out, was that the sterling value went away from the value of gold and that created very great difficulties. This has, for example, brought about a very great influence of the American cross rate upon the Indian rate. This is not at all desirable unless we have some means of controlling that rate too.

1920. (*Sir Henry Strakosch.*) You say that the ideal to be aimed at is the system which was in operation in 1914. Then gold could be handed in and rupees received, but you could not receive gold on handing in rupees in unlimited quantities. Is not that a fact?—Unless the Government could do that the exchange system would break down: but the Government was doing that up to 1916.

1921. But there was no legal obligation on the part of the Government?—There was.

1922. To hand out gold for rupees?—To hand out rupees in the place of gold. Government used to take gold and hand out rupees.

1923. But it did not hand out gold under any statute in exchange for rupees?—Not under a statute, but if the Government wanted to maintain that standard, Government would have to do that, otherwise the exchange standard would break down.

1924. (*Chairman.*) I think Sir Henry Strakosch is asking you exactly what the system was before the war?—That is what I am describing. Before the war Government was not bound by any law to hand over gold in exchange for rupees, but Government practically in all cases whenever there was an adverse balance of trade was drawing reverse councils on the Secretary of State, which really means handing out gold for rupees. If the Government had at any time failed to hand out gold it would immediately mean a fall in the rate of exchange below 1s. 4d. The reverse council bill was really a support not to allow the 1s. 4d. rate to go down, just as council bills do not allow the rate to go above 1s. 4d. Therefore, although the Government was not legally bound to do so, Government was in all cases doing that, and whenever Government failed to do that it must mean the breakdown of the Government rate.

1925. (*Sir Henry Strakosch.*) Would you regard it as an improvement of the system if the Government was legally bound to give gold?—That, I suppose, I have suggested in my written memorandum. The Government should be made legally bound to give gold or, preferably, gold bills, because gold will not be in use within the country as currency.

1926. To that extent a modification of the system of 1914 would be necessary in your view?—Yes, there are several modifications which I have suggested; the most important modification will be to have a separate exchange reserve.

1927. (*Chairman.*) We will take that later.

1928. (*Sir Henry Strakosch.*) I am merely pointing out, with reference to your previous statement, that you regard the 1914 system as an ideal one that might possibly be improved?—Substantially the same system. The principle that was working up to 1914 I would accept.

1929. You suggested in one of your answers that sterling had not reached gold par. Are you aware that for the last two or three months sterling has reached gold par and has been maintained at parity with the dollar?—I would not call it exactly that sterling has reached that, unless that is maintained also in internal currency. England is probably a gold standard country, but so long as gold circulation within that country is not maintained at parity with the dollar I would not say that the old system has been brought back.

1930. Therefore you would say that England will not return to the effective gold standard unless gold were put into circulation in the country, is that your view?—Unless gold could be always available for purposes of export.

1931. But it is to-day? Gold is available for export?—So far as I understand the situation, gold is available for export only when the export is sanctioned.

1932. (*Chairman.*) I think Dr. Basu may be thinking of the circumstance that, until the end of this year, a licence is still technically necessary, although the Bank and the Government have declared that a licence will be granted in every case. Nevertheless, at the end of the year automatically even the necessity for a licence ceases?—Then it will exactly reach the old position.

1933. (*Sir Henry Strakosch.*) Then you would regard Great Britain as on an effective gold standard, although no gold is in circulation within the country?—This will be having the gold standard without a gold currency.

1934. You mention that the United States to-day is the only gold standard country. You are no

doubt aware that Great Britain is to-day, for all practical purposes, on a gold standard. The rest of the Dominions are, as also Holland, Sweden, Germany, Austria-Hungary. I believe I am correct in saying that the gold standard countries comprise countries with a population of about 160 or 170 million people to-day, apart from the United States of America?—That is, these are the countries which, theoretically, have a gold standard, and want to go back to the gold standard, but I do not think any of those countries has actually the gold standard in the sense that there is a gold currency also.

1935. No, but have they not returned to the gold exchange standard in the proper sense?—For external purposes they have got a gold standard.

1936. In fact, they have returned to a standard which you describe as the ideal standard?—Without really meaning to stick to that; that makes a good deal of difference. They have been forced into the gold exchange standard, but they do not want to be there.

1937. Why do you say that, when it is laid down in their statutes that they have to exchange their domestic currency for gold for export?—Every country dealing with a gold-using country will have to exchange its currency for gold; gold being the medium of international payment that is one thing, but it is another thing to deliberately accept a gold exchange standard and build up currency reserves for maintaining the currency exchange. As it is, none of these countries has got any exchange reserve as such.

1938. They have. If you look at the bank returns of all of them you will find that they have rather substantial gold exchange reserves?—That is not exactly earmarked for exchange purposes. As soon as the gold reserve is sufficiently big their idea is to convert the internal currency into gold, and not to retain the position which they are forced to retain at the present time; for example, the movement of Germany in having a gold currency and all other schemes like that, the ideal all along has been to return to gold currency and not to keep to the gold exchange standard.

1939. Do you, then, regard it as the final ideal that a country should have gold in circulation internally?—No. I do not think so. In fact, I think that it will be a wrong thing to have gold in circulation; that would be locking up so much of the national asset for merely providing the media of exchange, but then that is the ideal which has been kept before all the gold standard countries.

1940. Why do you, then, suggest that the countries in Europe who have now embraced the gold exchange standard will not have reached the proper gold exchange standard until they have put gold into circulation within their own countries?—I am afraid I have been misunderstood a little. I think I have not made my position clear. What I want to say is that those countries really want to be gold-using countries; they do not want to remain there. Just at present they have probably gold exchange standard without some of the essentials, namely, that there is no special permanent provision made in order to keep up the exchange rate. In fact, they have not fixed any exchange rate at all. Their ideal is to go to the gold currency system.

1941. I think you are mistaken. They have made provision; then statutes lay down at what price foreign gold exchange is to be bought and to be sold, which establishes the gold exchange standard?—I do not know; how do they maintain that rate?

1942. By their gold exchange reserves?—But their rate seems to fluctuate like anything, for example, the franc.

1943. France was not included among the countries which I have mentioned? May I ask you one other point? Would you regard it as an essential feature of the gold exchange standard that the reserve should be held in gold or would you say that the gold exchange standard is established if the reserves were held in exchanges which are at any time convertible into gold?—There would not be any difference between the two, but the difficulty is that in times of stress it is very difficult to convert the currency of any other country into gold. In the case just after the war, when these reserve council bills were being drawn, our gold standard reserve was invested in sterling, and so it could not be easily converted into sterling without very heavy losses. Then I have got another objection about the investment of that reserve. I do not know whether this will come in this connection. If that reserve is invested in that country then really one of the important objects of the exchange standard is lost. The object is that when there is this adverse balance of trade then the reverse councils should be drawn from here and these reverse council bills when they are produced there will bring out some of the currency which was locked up before into the circulation. That will affect the prices in England which will correct ultimately the exchanges; but just at present, when there is any sale of council bills, that money is not really locked up, so that the English money is not reduced; it is immediately invested and comes into the market, and that way the object is lost. It is lost wholly in the case of India, because there is no exchange reserve at all; it depends upon the total reserve of the Government of India.

1944. Let us suppose that the exchange reserve of India in Great Britain were invested in short term bank bills. If the reserve is employed then to that extent the credit structure in Great Britain is reduced, is it not?—Exactly.

1945. And, therefore, constitutes a contraction of the currency in Great Britain?—If it becomes effective I have no objection to investing in short term bills.

1946. You would have no objection provided you can be sure of being able to convert the proceeds of those bills into gold or any other gold exchange standard balance?—Exactly so.

1947. Do you really think that the transactions of this country can have any very material influence on the cross rate between sterling and dollars? Have you looked into the magnitude of the trade between Great Britain and the United States, that is to say, the magnitude of the exchange transcations passing daily between the two countries?—Probably not to the extent that India would desire to have, but certainly to some extent there will be this effect

1948. If you held, as you have suggested, your exchange reserve in United States dollars, and if trade were to flow as it has been flowing in the past to or via Great Britain, would you not in each case, when a settlement has to be made, have to convert your dollars back into sterling, and by that process settle your balance of payments?—That is what we had to do, but if we could draw bills directly upon America, then would not that affect the rate of exchange between England and America? That would create a greater supply of bills in England or America.

1949. You imagine, therefore, that you would keep your reserve balances in the United States, and sell the bills which you have drawn on the United States for sterling in order to be able to settle your sterling requirements?—Exactly.

1950. Just one other point. You suggested that it was merely because the Indian currency was hitched to sterling that the major part of India's trade went to Great Britain?—No, I do not suggest that. I said this was also one of the causes—trade with sterling—using countries has developed because the rate of exchange is fixed in sterling, but I consider this to be not a very important cause of the special distribution of our foreign trade.

1951. Are you aware that Great Britain up to the outbreak of war has done and it has since the end of the war regained practically the whole of its acceptance business and that to this day a very large proportion of international trade is settled through sterling. China, the Argentine, Brazil, in

fact a great part of the overseas trade of the world is being settled via sterling in spite of the fact that sterling had not reached the gold point?—That is because the most important trade of these countries is with Europe. If that were not so then America would have permanently taken away the position of London.

1952. But she has not, in spite of the fact that sterling had departed from the gold standard?—That is because the main market is Europe and not America, and in Europe English currency is the best currency.

1953. Do you not in these circumstances think that there must be somo advantage in settlements over London through sterling?—The settlements will be over London, but then the bills will be drawn in terms of gold. I don't understand how there will be any difference in the trade. Because bills will be drawn in terms of sterling when sterling comes to gold, and when sterling is not gold then they will be drawn in terms of gold. When this sterling fluctuates, then will it not be advantageous for trade to have gold rather than this currency the value of which is uncertain.

1954. (*Mr. Preston.*) Mr. Basu, I would like to ask you just a few questions in connection with the system of the gold standard reserve which was in force up to 1914. And in the asking of these questions I may just re-cover a little of the ground or a few of the answers you have given to our Chairman, but my object in doing so is simply to take our system in so far as I possibly can and to arrive this morning at what you would admit was a concrete statement of that system up to 1914. In Section II (6) of your evidence you say:—"Therefore my conclusion is that the gold exchange standard should be retained for India because it is the cheapest and the most effective currency, and therefore especially suitable for poor countries." Then again in sub-paragraph 5 of Section IV (2) you say:—"The gold exchange standard worked admirably well in India till 1914 as if the standard were of gold, but at a considerably less cost to the country." Now, our gold standard system up to that period might have been held to consist of our paper currency system and our gold standard reserve. Council bills I leave out entirely because, when all is said and done, that is more in the way of ways and means—would you accept that?—Yes.

1955. Then beginning with our paper currency system and taking the figures at the conclusion of balances in 1914, the gross circulation was 60 crores. The covering of that circulation in gold was in India 9·31, out of India 7·65, so that the total gold was 16·96. In silver in India we had a total of 29·87, and in other British securities in India there were 10 crores and in England 4, so that outside securities our metallic backing consisted of nearly 17 crores in gold and 29 in silver. And the policy then was with regard to our gold holdings in the paper currency reserve that the Government would give rupees, as you have stated, for any gold tendered, but they would not accept the obligation of letting out gold for rupees in the country. But, on the other hand, in the event of failure of the monsoon, they would let out the gold for export purposes only. Will you accept that?—Yes, that is so.

1956. In 1908 owing to pressure which had been brought upon Government, they departed from the rule, and they allowed quite a considerable amount of their gold to be given out in the country for rupees, not for export, they did not say: we insist upon export?—I should think it was not gold which was given out in the country, but at that time about a million and a half of the gold reserve was allowed to be diverted for railway materials.

1957. I will come to that afterwards. I am only talking now of the paper currency reserve. Let me put it this way. In 1908 a certain amount of gold was allowed to go out for internal purposes, and that all vanished. You don't remember that? At the time of the American crisis.—That was in 1907.

1958. Well call it 1907-09. Then with regard to our gold standard reserve, which now amounts to about 40 million sterling, the object of that reserve has always been, in so far as my memory goes—and I want to know whether you substantiate that in exactly the same way—how that reserve was a special reserve for a special purpose, namely, the maintenance of the exchange standard.

1959. (*Chairman.*) I want to open up that particular topic with the general question as regards the use of reserves. I think it might perhaps introduce a certain confusion into the examination if we take that now.

1960. (*Mr. Preston.*) Yes, we will omit that, and just speak on the paper currency. All I would say, Dr. Basu, would be this, that taking the system such as you understand it, the gold exchange standard which has served India so well in the past is clearly the best suited to India's needs at this stage of her development, provided that the managament of the currency is in the hands of skilled people, and that it is definitely settled by statute. Would you accept that as being exactly what you substantiate here as being the system best suited to India's needs?—Yes.

1961. (*Professor Coyajee.*) Dr. Basu, how far did the system prevailing in India before 1914 either differ from or approximate to the ideal gold exchange standard?—The most important point of difference is that there is no exchange reserve specially meant for that purpose in India, so that when the council bills are sold, and when they are presented here in India, the Government lets out money, and when gold is presented Government lets out rupees also. But when reverse council bills are sold in India the money should be locked up because the object of such sale is to reduce the currency because otherwise it wouldn't act as a corrective to the exchange. But when that is not done, then it ordinarily would not contract the amount of circulation in India, and that is the main object for which these reverse council bills are drawn.

1962. (*Professor Coyajee.*) In answer to the Chair you emphasised the necessity of keeping the reserves separate, because these reserves have separate objects and functions.

1963. (*Chairman.*) That is a question which I wanted to raise and develop later.

1964. (*Professor Coyajee.*) There is a quotation from Professor Kemmerer as regards the defects of the gold currency system of India before the war which I would submit to you and ask your view on.

1965. (*Chairman.*) I am afraid it will take the discussion just a wee bit away from the immediate issue.

1966. (*Professor Coyajee.*) I would submit that I may put this question—it must come in somewhere as a whole. The Professor says:—"The Indian system as it has so far developed, with its confusion of fiscal and monetary objects in the sale of exchange, with its mixing up of the functions of the gold standard reserve and the paper currency reserve and its excessively large investments of reserve funds in interest-bearing securities under the pressure of fiscal needs is thus far removed from the pure gold exchange standard." Would you at all agree with this criticism?—That is also the position I have developed here.

1967. Then two accusations have been brought forward against the old currency system of India as it prevailed before 1914. In the first place, it has been accused of causing a redundancy of currency and a rise of prices. What is your view as regards these?—That used to be the accusation of the late Mr. Gokhale also. It is extremely difficult to find out exactly to what extent the rise in prices is due to the inflation of currency, but as there is no free coinage in the country, certainly there cannot be any reduction of the currency by melting and I should therefore guess that there should be some redundancy of currency. But I cannot be positive about that point.

1968. (*Chairman*.) I am not quite sure that I follow your last answer. Is it to the effect that currency is not melted down in modern times?—It cannot be in India because the rupee is a token coin. Probably it was melted a little during the years 1919 and 1920 when the rate of exchange was not sufficiently high to cover the metallic value of the rupee.

1969. (*Sir Purshotamdas Thakurdas*.) I understand you to say, Dr. Basu, in reply to the Chairman, that unless international arrangements were made by the important countries to keep their gold reserves in various important centres, your scheme was not capable of being worked up to a great extent?—The ideal that I have put forward is not capable.

1970. Would you then suggest it for India, until the various important countries in the world follow a scheme of keeping gold reserves in important centres?—Not exactly that. My idea is that it will facilitate the introduction of a gold exchange standard in all countries if this reserve were guaranted by international agreements, but then if only one country wants to have it, it can have it without any international guarantee, and it can decide where it can safely keep its reserve.

1971. Provided then, you say, in the case of India, an arrangement can be made in America, or England?—In England arrangements have been made.

1972. Did you indicate that it is necessary in present circumstances to have an arrangement also made in America?—So long as sterling remains depreciated. So long as sterling did not approach the dollar, it would be some help to have gold in America as we had in 1918 or some other years when we had some bills drawn by the Secretary of State upon America.

1973. Would you not say that sterling has approached the dollar now?—It has.

1974. So that under the present circumstances, with the position that sterling occupies, would you think it necessary for India to have credits in New York?—In times of crisis, future crisis, that may be necessary, but in normal times I suppose it is not necessary to draw any bills on America, but that may be necessary whenever sterling is divorced from gold.

1975. You would, therefore, if you are devising a system of currency for India now or within the next six months, consider it necessary to have credits in New York to guard against any crisis?—No, if it is not meant to be permanent.

1976. If a scheme was devised for five or ten years, would you do it?—It is very difficult to foresee.

1977. But you are suggesting this, and I think I may simply ask for your assistance: supposing you were offered a hand in devising a scheme, would you consider it necessary to have credits in New York?—I think that we can re-establish our gold exchange standard on a firm footing by having a gold reserve even in England.

1978. And not in any other country?—We should remember in this connection that this ideal is contemplated with reference to the people mentioned, that is we should be dealing with all the countries accepting the gold exchange standard and not merely India. If you have it for India only, and as India does most of her trade with England, it may suitably for the present have a gold standard in England.

1979. Seeing that it may not be possible to get all the countries to fall into line, would you insist on having an arrangement with New York if you are devising a scheme for India at present?—Unless I am quite sure that the reserve in New York runs no risk. If I was sure that the reserve in New York will run no risk, then I would have a portion of the reserve even there.

1980. (*Chairman*.) What sort of risk have you in mind?—For example, I may mention as an illustration the seizure of the Afghan treasures in Italy.

1981. (*Sir Purshotamdas Thakurdas*.) Bearing all these things in mind, would you, if you had a hand in devising a scheme for India and knowing the conditions of India and various other circumstances such as the one that you mentioned last, think it necessary or imperative to have facilities in New York of the nature that you indicate?—It is very difficult to gauge the political situation, and the matter is wholly dependent upon the political situation in the world, of which I must confess I am very ignorant.

1982. (*Chairman*.) I rather gather the effect of Dr. Basu's answer would be that if you, Sir Purshotamdas, were devising a scheme as a financial expert, he would also wish to take advice from political experts as to what risks were involved.

1983. (*Sir Purshotamdas Thakurdas*.) I fully understand that Dr. Basu may be unable to take cognizance of political aspects. Overlooking the political part and purely as a financial adviser and expert, what would Dr. Basu advise?—I would like to keep the gold standard dispersed in several countries with which we have got important trade transactions; but if that were not possible I would be content to keep it in the country bills upon which can be sold more or less freely all over the world.

1984. You would construe then that to be a main defect in the scheme if any such arrangement was recommended or observed by the Government of India?—I do not call that a vital element of the gold exchange standard.

1985. Regarding the gold exchange standard, I thought you said in reply to Mr. Preston that it would have been best if the management of the gold exchange standard was in the hands of—as I understood the words—capable men. Was it in capable hands till now or till 1918-19, or not?—The point is to what extent the capable hands are guided and restricted by statute. The law in this connection is I think a good deal defective. First of all the Government of India is not compelled to give gold in exchange for rupees although it is a vital element of maintaining the standard; you cannot maintain the exchange standard unless the Government is willing in all circumstances when the rupee tends to fall below the fixed rate to give an unlimited quantity of Reserve Council Bills—and Government had been doing this till the crisis of 1920.

1986. So that would you say that that was properly carried out?—It is very hard to pass a judgment.

1987. I may only ask you whether the history of this policy till 1918-19 would call for any criticism from you?—When I said that we should provide that it should be in capable hands, I was contemplating the other part of the question, *viz.*, the system and the reserves. Well I would say that the system was substantially a right one and I would keep the system, with the modifications which I have suggested, especially about the reserves.

1988. (*Mr. Preston*.) Mr. Chairman, arising out of the last question, may I in order to remove any doubts as to what the final finding was say, 'provided that the management of the currency is in future in skilled hands,' so that there will be no question of casting any reflection on what happened in the past.

1989. (*Chairman*.) We will make that alteration in the question. I felt no doubt in my own mind that the point of the question Dr. Basu was asked was whether he thought that such matters as those connected with exchange and currency were better in the hands of skilled bankers than in the hands of Government officials. There was no question as to the personal capacities of the persons concerned. You have laid considerable emphasis, both in your memorandum and in your replies to-day, upon the maintenance of a rigid separation between the currency reserve and the exchange standard reserve. Will you tell us why you lay so much emphasis upon this point? I do not find the matter developed very fully in your memorandum?—When there is any rise in exchange or there is an excess of exports over imports, naturally the corrective would be under the gold standard system in such cases the importation of gold; that is, the currency of the country where there has been a

large amount of export will be reduced and thereby the prices will fall there and that currency will come through to India and swell the currency and increase the prices here, so that exports will diminish and imports will be encouraged. This is the natural corrective when there is a free inflow and outflow of gold. This operates under the Indian system also when Council Bills are drawn by the Secretary of State, but when the Council Bills are drawn in England, then the English currency is contracted. I assume that that money is not given out; that money ought to be contracted and thereby there will be a reduction in the currency of England, whereas these Council Bills, being presented in India, would release rupees from the Government treasury, thereby increasing the currency here in India, which will raise the prices. This rise in prices here and fall in prices in England will bring about a corrective when there is an excess of exports over imports. At present against Council Bills currency is given out in India but when reverse Council Bills are drawn, the money ought to be locked up and thereby the currency ought to be contracted, but that is not actually done, that is, being mixed up with the currency reserve, it may come out into the circulation. The omphasis that I give on this rigid separation is for this purpose, namely, that when it is necessary to reduce the currency of the country, then this currency should be reduced by the sale of Reserve Council Bills, and this money should be locked up till Council Bills are drawn by the Secretary of State.

1990. Let me take your answer in one or two steps. Under the old conditions the exchange reserve was separated and yet there was no provision for automatic contraction. Is it not, therefore, a natural and inevitable condition of a separate reserve that it should provide for automatic contraction. It requires some further provision, does it not?—The automatic contraction means that the currency should never be let out unless there is any need for exchange purposes. By this rigid separation of the exchange reserve here or outside India we can bring it for the purpose of internal trade almost to the same level as the gold standard.

1991. By a rigid separation are you intending some other condition as regards the exchange reserve than that which prevailed before the war, or are you referring to the degree of separation which then existed?—Before the war there was no exchange reserve as such. The exchange bills were met out of the general balances of the Government and whenever the general balances required the money was given out again.

1992. You do not look upon the so-called gold standard reserve as an exchange reserve?—On the other side probably we have got some separate exchange reserve although its separation is not rigid; because that money is invested there but really there is no contraction; but on this side in India there has not been any reserve so far.

1993. So that, by the gold reserve to which you are referring as that which must be kept rigidly separate, you have in mind a reserve of actual gold metal in India?—Yes. It need not be actual gold; it may be convertible into rupees—some rupees which can at any time swell currency and reduce currency and that will make gold exchange standard automatic. My contention is that although it is Government managed, if it is properly managed it can be as automatic as in a gold standard country.

1994. How would you provide that the use of such a gold reserve held in India would effect an automatic contraction when gold is sold or exported?—Only gold bills will be sold—that is, reserve council bills will be sold.

1995. You think it is possible to effect a complete separation between the functions of an exchange reserve and a paper currency reserve?—That is my idea, that it should be absolutely separate, except that you can exchange gold for coin between the two reserves; but the reserves as such should be distinct.

1996. Would you agree that it is possible to devise a scheme by which the two reserves may be combined and yet provide for those automatic features in the working of the system to which you have referred as essential?—I do not know; but if the object can be obtained by having one reserve, I have no objection. My idea is to make it automatic. If that can be attained by any other way, I should have no objection. But this is the means which has occurred to me as the only sufficient means for that purpose.

1997. To be quite clear, if it were possible to devise some system for the combination of reserves which would work automatically as regards the contraction and expansion of the currency your objection to separate reserves would then have gone?—Yes—that is, contraction and expansion of currency with reference to the external trade.

1998. What are your views in regard to the transfer of the administration of the note issue and exchange operations to the Imperial Bank of India?—That is its proper place. In fact this is a banking function; but for a long time the Government of India has been doing a lot of banking functions and it seems that in recent years it has gradually divested itself of some of the banking functions. You mean just as it is done in England through the Bank of England?

1999. Yes, with whatever necessary adaptations were required to suit Indian conditions?—Yes, with adaptations to suit Indian conditions.

2000. You would prefer that the management and control of the note issue should be in the hands of the Imperial Bank, and I understand that you base that preference upon having matters which are apparently typical banking matters in the hands of experienced bankers?—Yes.

2001. Are there any other reasons prominent in your mind for the transfer?—That is a question which deals mostly with the administration of the system about which I do not think I can offer much useful opinion.

2002. Assuming the transfer, under those conditions, whether the reserves are separate or not, you contemplate both reserves, as I understand it, being under the control of the Imperial Bank?—Yes, under the control of the Imperial Bank.

2003. Have you been able to form any views as to the magnitude of the reserve which it is desirable to hold under these conditions?—That of course will vary from time to time. But it will be mainly dependent upon the foreign trade of India and from our recent experience it seems that £40 million is not a very big reserve. And in India the amount of the reserve is not very material also; because the Government of India's resources are here at any time for replenishment. The difficulty is in the case of an adverse exchange.

2004. You refer to the foreign trade of India. I imagine in estimating the total reserves which it is necessary to hold one must look, in the first place, must one not, to the possible contractibility of the currency of the country for the purpose of conversion into foreign currencies for the payment of exchange payments?—I could not follow you.

2005. For the sake of simplicity, let us consider that you combine the reserves under the control of the Imperial Bank of India. How would you set to work to estimate what the magnitude of the reserves should be which you would keep in that combined reserve, both for the purpose of securing the internal convertibility of the note issue and for the purpose of securing the exchange value of the Indian currency?—For the exchange reserves, I suppose the main point to be considered will be the fluctuation in the foreign trade, i.e., to what extent it will go up and to what extent it will fall rather than the magnitude of the foreign trade. For internal purposes I do not suppose I can say very much except that the system worked so far seems to be quite a good one. It may be that the cash reserve is a little bit too high;

but probably for a country like India where the rural population, particularly in Northern India, want cash only and nothing but cash, probably it is better to have a sufficiently high reserve for that purpose.

2006. Passing to another aspect of the gold exchange standard, have you any view as to whether it would be desirable or not to have gold in circulation as an auxiliary feature of that standard?—In India?

2007. In India?—I would be very much against that.

2008. What are your grounds for being averse to that?—The main ground is that it will mean a greater national wealth being kept for circulating medium while it can be easily done with the help of notes and token coins.

2009. Would you go so far as to demonetise the sovereign in India?—I do not think it had much circulation and if it is demonetised not much harm would be done.

2010. If it has not had much circulation you look upon that as not of great practical importance?—No. The sovereign was made legal tender so long as our standard was a gold standard but now that it had become gold exchange standard, I do not think there is much significance in having the sovereign as a legal tender.

2011. One of the main problems during the war arose out of the rise in the price of silver and I want to refer to that subject next. In similar circumstances, as I understand from your memorandum, you would either let the rate of exchange go up or you would reduce the silver content of the rupee?—You will have to do so.

2012. Either the rate of exchange will have to be raised or the silver content of the rupee will have to be reduced. What about the latter measure? Is that a practicable measure in India—to debase the rupee?—I do not think it will be even a safe measure. The rupee has got a certain amount of sanctity about it from a very long time and it is used not merely as a currency but even in villages its weight and fineness are utilised for other purposes. For example, the goldsmith's measure is this rupee and there are various other functions in rural India which the rupee performs and so long as a token coin or any currency is dependent upon the faith of the people, you must take into account the sentiment of the people and I am sure there will be a good deal of suspicion if the rupee is debased.

2013. So that, contemplating the possibility of a rise in the value of the silver content of the rupee above its token value, you consider that you would be driven to the former alternative, that is a rise in exchange?—That is what India did in 1893; that is what India did again from 1917 to 1920.

2014. That, no doubt, would be the lesser of the two evils?—Yes; and as this change is practically due to the influence of foreign exchange, I should think that the change should come first upon the foreign rate rather than internal currency; because internal currency has little to do with these fluctuations. Moreover the people who would be affected by the rate of exchange are more educated and are those who could understand the reason for exchange fluctuations better than those who use the rupee. So both from the point of view of reason and from the point of view of sentiment, I would deprecate any change in the metallic content of the rupee.

2015. Have you given any thought to the subject of the price of silver and what may be reasonably foreseen as the future price of silver?—I do not think I can say anything about that.

2016. It is rather a highly specialised matter?—Yes.

2017. Now as regards the actual rate of exchange which might be selected, in your view (it is the outstanding opinion expressed in your memorandum, I think), there still exist such disturbing factors as to make it premature to fix the actual rate of exchange at the present time?—Yes.

2018. You deal with this in particular in Section IV (3) of your memorandum. I understand that you would wait until greater stability had been attained in some of the European currency systems. Perhaps you would indicate in a little more detail to the Commission what are some of the more doubtful factors in the situation, the solution of which in the future would justify at that time an attempt to stabilise the rupee?—The most important factor is that there is not that trade recovery which is bound to come, and with the trade recovery whether these countries will be able with their slender resources to maintain the rate of exchange which they have fixed now is to be considered.

2019. Supposing it were decided to stabilise at a rate X, what difficulties do you foresee in maintaining that rate supposing there to be a trade recovery? In the first place, are you contemplating a boom or a slow, gradual improvement in the world's trade?—It must be slow and gradual.

2020. What would the difficulties be in maintaining any given rate X supposing there were to be a slow, gradual improvement of the world's trade and increased production?—If there were uniform improvement both in the imports and exports of these countries then probably it will not be so difficult for them to maintain the rate they have fixed now, but the difficulty is that trade recovery is not likely to be uniform in that way, and if it is not uniform then there is bound to be fluctuations and there may be very violent fluctuations, and whenever there is a chance of such fluctuations the rate for the time being must break down.

2021. Is there anything in the present economic situation of the civilised world to lead you to think that the circumstances of trade improvement are likely to show more extreme fluctuations from country to country than they do under normal conditions?—The very fact that the trade and production of these countries have broken down and that they are trying to develop them shows that there is likely to be more violent fluctuations than in normal times. Some trades may have developed but other trades may not be allowed to be developed. An important factor also as I mention here is the economic provisions of the Peace Treaty which are, I think, directly hindering the economic recovery of the world.

2022. (*Sir Maneckji Dadabhoy.*) What was your last sentence?—That the economic provisions of the Peace Treaty have directly hindered the economic recovery of the countries concerned. For instance according to the Treaty Germany is to pay an indefinite amount of indemnity to other countries. But there are only three ways of making these payments—either by giving the gold which Germany has not got or by having a loan temporarily which America has refused because of the attitude of the other Allies, or by the export of German products, but German products are shut out in all these countries. In fact Germany, even if she wants to make payment to England and France, will have to demolish the industries of these countries. So on the one hand you want indemnity and on the other hand you shut out all the means of making that payment.

2023. (*Chairman.*) What we have to consider, is it not, is whether there is any conspicuous change in the economic conditions of Europe which is foreseeable. As regards what you said about reparations, may it not be considered the case that the introduction of the Dawes Scheme has produced a stable condition as regards that factor in the situation?—For the time being it has, but so long as the total amount of the reparations is not fixed I do not think we can foresee anything about the fluctuations in German trade.

2024. In the second place, might it not be said that, as regards this situation, the resettlement on a more friendly basis of political affairs at Locarno has stabilised the situation?—It may have to some extent. Whatever will stabilise the European political situation will, I am sure, affect the present question also.

2025. Can you point to a period in the future at which you would think it safe to try and fix the rate of stabilisation for the rupee? Can you define when that time would have come?—I will say the time is coming when the production in these countries has recovered to their, not exactly pre-war level but something like pre-war level; when the system of production in these countries has recovered to almost their pre-war level, I will say that at that time it is likely that the set-back during the war has been recovered and therefore for that reason there is not likely to be any very violent change.

2026. You tell me that there is no disturbance of the sort to be feared if the improvement is uniform?—If the exports and imports of a country go on increasing at a uniform rate then there is likely to be less fluctuation.

2027. What is disturbing is that the improvement is not uniform but here faster and there slower?—Exactly; and that will bring about violent fluctuations in the exchange rate.

2028. I do not think you have told me yet, have you, why you suppose that it is likely to be here faster and there slower in the foreseeable future?—That is because in some cases the productive machinery, that is, the system through which production was being carried out before the war, has been completely destroyed; in other cases, it has been transferred to wrong hands; and in others again it may be partially in its original state and requires revival only; so that wherever the materials for revival are good they are likely to be developed as soon as the country can export.

2029. Supposing that your view be accepted, that the time has not yet come to stabilise, would you say that it is nevertheless necessary, as a practical measure, to recognise some temporary middle rate as the rate which it is best to maintain?—Yes, probably it would be profitable to have that; but I would ask two things to be taken into consideration—first, that a rate should be fixed which the Government will be certainly able to maintain. They should not fix a rate as they did in 1920 which they could not maintain even for a few months and which brought about such grave loss. And secondly, it should be declared that it is a temporary rate, and whenever we have a temporary rate there is that upsetting effect upon the trade and production of the country. As I pointed out at the beginning of my memorandum, these effects will operate whenever the rate is changed. So if the rate is changed temporarily and permanently hereafter and there is any difference between the two rates, it will naturally have an upsetting effect on the trade and production of the country.

2030. Does it make a tremendous lot of difference, if you are working to a rate, whether you call it a temporary rate or a permanent rate?—Yes, because if it is a temporary rate you will have to change it again. If it is a temporary rate, then for one or two years the rate may continue and at that rate the trade and production of the country will settle down to a certain level. If later the rate is changed and Government maintains a different rate, then the trade and production of the country will be deliberately upset. I do not say it will be bad but there is that upsetting effect upon the trade and production of the country.

2031. If you had a temporary rate you would not change it, would you, unless you had to, and similarly if you had a permanent rate you would not change it unless you had to. Is there any real difference in the practical working of the two?—The real difference is that the temporary rate also will be maintained by the sale of council bills and reverse council bills. That is, the assets of India for maintaining the exchange rate will be utilised for this purpose; and it may bring about a loss as it did in 1920; so I would not like to use the present gold standard reserve for maintaining a temporary rate. If no rate is fixed then the Government is not bound to maintain it; but if it is fixed, even if it is temporary, Government must maintain that.

2032. Admitting that one must have some rate to work to, pending a final stabilisation, which rate would you refer?—If any rate is to be taken at all, and I must qualify myself by saying that I do not advocate any rate myself, I would take the mean rate prevailing in the market. I suppose during the last six months or so or about a year you can say that there is a mean rate which can be found somewhere between 1s. 5d. and 1s. 6d. I mean the rate prevailing during the last six months or a year. Say if you take one year's mean rate then that is likely to be a real rate rather than if you take any other artificial rate.

2033. You take last year's mean rate, and then you make use of your exchange standard machinery to maintain that rate only announcing that it is a temporary rate and not a permanent rate?—Yes. If it is at all necessary to have a temporary rate then I would try to find out the rate prevailing over the last year or so. But personally I would not have a temporary rate adopted by Government.

2034. How would you use the machinery of the exchange standard system? Would you not use it at all?—Not use it at all, as it has been used, except for purposes of the expenditure of Government.

2035. (*Chairman.*) I have only two minor questions on points of detail to ask you in conclusion. Perhaps it would be convenient if we took any supplementary questions now.

2036. (*Sir Maneckji Dadabhoy.*) You say that you do not recommend stabilisation till actually trade recovery takes place?—Till we are sure of a rate which is likely to be permanent.

2037. Now do you expect that when the trade recovery comes that recovery is going to be permanent in all countries or probably temporary and limited to certain countries only?—There will be difference in the development but on the whole the economic condition of one country is linked with the economic condition of other countries specially in the case of European countries where the external trade is so big as compared with the internal trade. But even if that is not so, even then I do not think it will be very difficult to fix a more or less permanent rate when many of the countries have returned to their normal condition. There will be difference in the development; but on the whole I suppose the economic condition of one country is more or less linked with the economic condition of other countries. That applies especially to the countries of Europe where external trade is so big, as compared with internal trade; but even if that is not so, I don't think it will be very difficult to fix a more or less permanent rate when many of the countries have returned to their normal conditions. If many of the important countries returned to their normal economic condition then I think it would be easier for us to find out the rate of exchange which we can maintain permanently even if all countries do not recover simultaneously.

2038. Which would you prefer of the two alternatives, to fix a temporary rate or not to fix at all and allow matters to drift?—Not to fix at all for the time being.

2039. (*Chairman.*) That is what Dr. Basu said. He said he was not in favour of fixing a temporary rate.

2040. (*Sir Maneckji Dadabhoy.*) Speaking about this temporary middle rate you said you were not in favour of it but if it was absolutely necessary you would take the mean of the six or twelve months previous?—So far as possible the rate which is current in the market.

2041. Would you in fixing this temporary rate do it for a limited period or generally till trade recovery comes in, say for four or five years?—I suppose it would be best to leave it as it was till it is unfixed again by the permanent rate. I would like to have the same temporary rate till you arrive at a permanent rate.

2042. You don't think that the temporary rate is open to the same disturbing causes as you have in fixing a permanent rate?—The temporary rate as it is prevailing now?

2043. Yes?—It is very hard to judge that but there will certainly not be much loss, if no rate is fixed, from the Exchange Reserve Fund. Our Reserve will have to be utilised for the temporary rate.

2044. Do you expect a speedy recovery in the rate of European currencies?—Not at all.

2045. Would not some good be done then by this temporary settlement of the rate?—I don't know; that will depend upon whether this temporary rate will remain more or less the market rate in the future.

2046. That is very problematical?—Very problematical. My point is that we cannot forsee.

2047. (*Mr. Preston.*) Dr. Basu, with reference to my former questions I would just like for the purpose of emphasising what actually took place in 1908 in connection with the paper currency reserve during the crisis of 1907-08 when £4,179,000 in gold was withdrawn by the public from the paper currency reserve, only £250,000 was exported on private account. That was the first time our system broke down and really the breakdown was due, was it not, to mis-application of the system rather than the fault of the system itself?—Yes.

2048. So if that £4,000,000 gold had been refused to tenders of notes or rupees, whereby that gold was allowed to go into internal circulation or hoards, and the old ruling had been upheld whereby that £4,000,000 ought to have been exported, the equivalent of that £4,000,000 either in notes which would come in and be cancelled or in rupees which would have been withdrawn from circulation would have provided an automatic contraction which would have almost saved the then situation?—Yes.

2049. Then later on that same year, when the adverse tide could not be stopped Government again began to operate on the gold standard reserve and Council Bills were drawn on the gold standard reserve in London to the extent of about £8,000,000 sterling. Here again the equivalent of the £8,000,000 sterling in actual rupees was held in the land of India as the Indian portion of the gold standard reserve and produced a contraction of the Currency, so that, that agrees, does it not, with your idea of what the actual automatic working of the gold standard system should be?—Yes, that is so.

2050. And to do this in the event of adverse exchange and the necessity for drawing bills from this end on the gold standard reserve the equivalent amount of Currency on this side either in notes which will come in to be cancelled or in actual rupees, must be held on this side as an equivalent of the gold which goes out in the other?—Yes.

2051. Thus producing the contraction necessary to restore our exchange balance?—Yes. But, may I point out that the Government did this in 1908 under great pressure? The Government did not follow this policy in normal years. I want to make this policy a normal feature in the machinery.

2052. That is the method whereby in your opinion a gold exchange standard should be administered?—Yes. And this four million pounds should not have been given away in gold in India, but I would give it only in the form of gold bills.

2053. Or gold for shipment?—Yes.

2054. (*Sir Alexander Murray.*) You replied to the Chairman just now suggesting that it was not desirable to fix a rate in the meantime. If that is so, how can you deal with the upper and lower gold points as regards remittances at the present moment. There could be nothing automatic in exchange?—No.

2055. (*Chairman.*) Dr. Basu's final reply to me was that he would make no use of the apparatus of the gold exchange standard.

2056. (*Sir Alexander Murray.*) Assuming you would make no use of the apparatus would exchange stay in the vicinity of the present rate?—You cannot say. It is because of that, that I would not utilise the gold standard reserve for such uncertain purposes.

2057. You would be prepared to let exchange run wild at the present moment and if it went up to 1s. 7d. or 1s. 8d. or 1s. 9d. you would not take any action?—No. Unless there are more definite data I would not use the gold standard reserve for fixing any rate or keeping up any rate even if exchange went up to 1s. 7d. or 1s. 8d.

2058. Irrespective of the effect it would have on prices in India, you would allow exchange to run wild as you said and would not intervene?—I think the evils of the system would be greater than the advantages. I recognise all the evils which you point out but I see that the disadvantage of using our gold standard reserve is too much with an uncertain rate which is not likely to be permanent and which as far as I can forsee cannot be ascertained The evils of this will be greater.

2059. (*Chairman.*) What would the evils be?—One evil would be that our gold standard reserve will be used up and then there will be another heavy breakdown just as we had in 1920-21. In 1920-21 the speculators won and speculation was so strengthened simply because people knew definitely that the Government could not maintain the rate and as soon as the rate fell below that amount they could bring back that money and make a profit. Sometimes the profit was three or four times the amount they invested.

2060. The evils experienced in connection with the breakdown of the 2s. rate?—Yes. I would say that the machinery should be utilised only when the price of silver rises again and approaches 43 pence or goes beyond that, in which case, in any case, we shall have to draw Reverse Councils if we want to maintain our rupee circulation. So, in order to preserve the rupee coin we shall have to draw Bills whenever the rate goes beyond 43 pence per ounce. But except in those circumstances I don't think we should utilise our machinery just for the present to fix a rate. (*Sir Reginald Mant.*—I do not quite catch what you say.)

(*Chairman.*) The general effect of Dr. Basu's answer was that you could only use the machinery of the Exchange Standard method in order to deal with the situation when the price of silver was rising so high as to imperil the rupee.

2061. (*Sir Reginald Mant.*) I understand that during the period for which the rate is not fixed you would not employ the machinery for contracting or expanding the currency?—Not for that purpose. It will take its automatic course through bullion. I would leave it to bullion to do that work.

2062. But supposing there is a sharp rise in exchange which indicates possibly a necessity for expansion of the currency, where would the bullion come from to bring that about?—A sharp rise in the rate of exchange can be only as a result of excess of export over import and this would bring gold into the country.

2063. But how will that gold become current? How would it be added to the currency?—It would not be actual currency; it would be taken to the Government for exchange into rupees or the gold may be the basis for credit in the banks. It is not absolutely rigid. If the Government does not interfere in the matter of exchange, expansion or contraction does not cease altogether.

2064. Do you mean that the Government would have to buy the gold?—No. It will come on private account. For the present, until we come to a fixed rate, my idea is that the Government should not do anything to fix a rate.

2065. (*Chairman.*) I am afraid you are a little at cross purposes. Dr. Basu says that the gold should be imported on private account. What I think you are asking is whether gold should be bought on Government account.

2066. (*Sir Reginald Mant.*) I am trying to ascertain how that gold would serve to expand the currency if there is no means of turning it into currency?—It will be. The Government by law is bound to give

rupees in exchange for gold. Even if that is not so, the effect of expansion of the currency upon prices will be neutralised by making that gold a basis for the expansion of credit. Most of the gold which will be imported might be used as a basis for credit. Business men would not bring this gold in for their private use.

2067. First of all, you said that the gold would come to Government in exchange for currency. That could not take place until the exchange had risen to 2s. because Government is not bound to give more than Rs. 10 to the sovereign. So until the exchange rose to 2s. no currency can be obtained from Government in exchange for the gold, is not that so?—Yes.

2068. So, the gold imported will merely form the basis of credit expansion?—That is the only thing that it can do.

2069. Don't you anticipate that there would be serious stringency in the money market here if Government took no steps to expand currency when exchange was rising sharply?—Yes, Government is taking even now, I suppose, some steps specially in the busy season.

2070. Yes, take the present season. What would happen if Government did not purchase sterling?—Government did not do that in view of the foreign exchange but in view of the tightness of the money market. If there is tightness, Government will look into the internal prices, and will take whatever steps they are taking even now. That does not necessitate the fixation of a temporary rate just at present. Even without a rate the Government is doing this for internal currency and Government will be doing that also in connection with internal currency, not with foreign exchange as such.

2071. I do not quite follow you. You mean that Government should make additions to the currency when there is stringency in the money market?—Temporary provision will have to be made, as Government is even now making. For example those rupees which are issued against hundis, the notes which are issued against hundis in the last 4 or 5 years. In that way Government can expand currency whenever there is stringency in the money market but for that purpose the rate of foreign exchange need not be fixed.

2072. Government can expand currency by making loans to the Imperial Bank against hundis. Government has also in the past busy season made large purchases of sterling which have had an effect of expanding the currency and relieving monetary stringency. Do you propose that Government should continue that also?—That is one of the means of providing currency in the country. As such I would not object to Government doing that. My objection is not against the contraction and expansion of currency which Government may undertake for internal purposes. My objection is towards the using of the gold standard reserve now for any temporary rate, which it may fix at present.

2073. What principles would you lay down to guide the Government in making these additions to the currency if it had no reference to the prevailing rate of exchange?—I suppose the rate of money is the main guide.

2074. You would lay down no principles?—I do not think I can say much about this expansion of currency as a result of the internal tightness of the market. In fact the questionnaire which the Commission has issued I read only yesterday while travelling. Before that, that side of the question did not strike me at all.

2075. Would it not be very difficult for Government to regulate the business of expanding and contracting the currency if you had no index to work by in the shape of a rate of exchange?—I do not know what is the present index for that purpose. But certainly it is not the rate of exchange. It must be something else. It must be the condition of harvests and the likely demand on the important centres of money for withdrawal of money for villages or financing the transport of crops from the fields to the exporting centres or the distributing centres. There must be some such index by which Government is guided, but I do not think that it is the rate of exchange.

2076. Recently Government has purchased sterling freely at an upper limit of 18$\frac{3}{16}$d., which corresponds practically to the gold export point with exchange at 1s. 6d. That gives a clear indication, a clear test of the demand for currency with 1s. 6d. exchange. If you have no fixed exchange, what test would you substitute for it?—I do not think it is so much the rate of exchange which guided the Government in purchasing sterling; this was a convenient means of releasing money into the Indian market.

2077. What test would you give for the guidance of Government during this period in which you have had no fixed exchange?—The same guidance which the Government has received during the last five years.

2078. Can you say what that guidance was?—No. It was certainly not upon the rate of exchange. It must have been something else. I suppose the rate of money in the important centres is the main guide.

2079. For the last 5 years the problem has been mainly one of contraction, to withdraw the redundant currency which was issued a few years before. But now that that contraction has been effected the main problem is to meet the requirements of the country for expansion of currency. What I want to make clear, and I cannot understand it from your reply, is how Government should be guided in meeting those requirements if there is no standard of exchange?—If an exchange rate is fixed merely for such guidance, then I suppose that rate would have to be maintained also by drawing reverse councils and council bills and my main objection as against that is that there should not be any further working of the machinery till we get to a permanent rate.

2080. You mean that you would have no objection to fixing the upper limit of exchange, but you would object to Government trying to keep exchange up to that limit. You would have no objection to pegging the upper limit, but you would object to pegging the lower limit?—My objection is to pegging it at all just at present.

2081. (*Chairman.*) I do not think I understood Dr. Basu to mean that.

2082. (*Sir Reginald Mant.*) His main objection is, he said, to dissipating our gold reserves which would not apply to pegging the upper limit? I ask whether that objection does not apply only to pegging the lower limit?—Then also it means that council bills would have to be drawn whenever the rate tends to go up beyond that and it will be using the machinery for the other purpose drawing upon the Govt. of India.

2083. You would object to additions to the currency being made in that way?—Yes, although it is a very difficult question to settle how Government will decide to expand or contract the currency.

2084. You cannot give us any guidance?—I do not think I can give any guidance, but I think it will be very wrong for us if we really do anything with the exchange reserve at the present moment. That is what I feel and that is the reason why I object to the fixing of a temporary rate but this will certainly create some difficulty in this way. But Government besides the rate of exchange must have some other means of judging the condition of the money market in the country and I think Government ought to decide about the contraction or expansion of currency by those tests rather than by the rate of exchange for the present.

2085. (*Chairman.*) Even if imported gold on private account goes into the Government reserves or the Bank reserves to serve as a basis for credit, it has to be recognised as of some definite ratio to the rupee to serve as the basis for credit. You cannot say that there is gold there?—Yes it will have to be. That will be according to the market rate, the market price of gold.

2086. Which will shift from day to day?—Yes.

2087. That would be rather a difficult arrangement for the unfortunate banker, would it not?—It would not be for the banker to find that out it would be for the ordinary individual who has deposited it. That will be in terms of some definite gold amount. Even now when the value of gold changes from time to time, the banks have to have some gold and there must be some fluctuation in that.

2088. Under your proposal, the banker's cash reserve against his credit would be fluctuating in relation to the credit based upon it in accordance with the changes in the exchange market, in regard to which *ex hypothesi*, there is nothing to control?—Yes. It will really be selling that gold to the bank, or, if the bank does not want it, selling that gold to tho market and depositing the amount.

2089. (*Sir Purshotamdas Thakurdas.*) Between the period from now until the time when you think it would be correct to fix or stabilise exchange, who do you think should be in charge of the Government operations for getting money home for the home charges? Would you have the present system or would you suggest that the Imperial Bank should be asked to do that?—I should like to have all these operations done by the Imperial Bank simply becauso this is really banking work.

2090. Therefore your idea is until exchange is stabilised at some point by Government by statute, the Imperial Bank should be put in charge of the task of getting the money to England?—Yes.

2091. Which means a change from the existing system?—Yes.

2092. And you would not give them any basis on which to work or any points between which to work?—The same principle on which the Government has been working; they will simply take over the same machinery.

2093. What has been the Government machinery till now? The machinery for maintaining exchange. There is no upper point?—At the present time no rate is fixed by Government.

2094. Therefore they have the field open to themselves. They could have gone up to 1s. 8d. and 1s. 9d. or come down to 1s. 4d. if they liked?—Yes.

2095. You would hand over the whole of the machinery as it is to the Imperial Bank?—Yes; at present it is really the banks which determine the rate of exchange; Government has little to do with it.

2096. You think so?—Yes, just at present.

2097. If the Government did not purchase in the market as they did, do you think the bank would have any substantial hand in it?—Yes, but that is only to provide money for these same banks. These same banks have been crying for accommodation in India for the internal market and this is one of the means by which the Government have placed money in the hands of the people.

2098. Do you think the Finance Department is working hand in hand with the exchange banks?—I have no knowledge of that.

2099. If you think they are doing this to feed exchange banks what do you think is the reason for it?—If the Government has not been doing this for placing money in the Indian market, I do not see any reason why they bought this sterling because they have certainly fixed no rate.

2100. You are unable to understand the motive of Government in purchasing exchange?—Unless they want to place the money in the market.

2101. It would be to maintain exchange at this point?—They have not declared any rate.

2102. In the absence of any declaration, what is your inference?—My inference is that they want to ease the tight market in India.

2103. It has nothing to do with the exchange point?—That is what strikes me.

2104. Regarding the question of waiting to stabilise the exchange until there is trade recovery, do you not think that this very important point must have been taken into consideration by Great Britain when they brought the pound sterling to the gold point?—Let me make it a little more clear. The trado recovery you refer to is not trade recovery in the East or in India; it is mainly confined to central Europe.

2105. Don't you think England must have taken this into consideration before they came to the decision that they would come up to the gold point and keep there. Or do you suspect that they may have overlooked it?—No. They must have taken this into consideration.

2106. With the resources at the disposal of Great Britain don't you think that they will not allow their calculations to go wrong if they can possibly help it, and if so, is that not sufficient guidance for India at present?—I would like to know what the conclusion was to which Great Britain came in regard to the trade recovery.

2107. Well, let me give you what appears on the surface. In 1920 the Babington Smith Committee recommended two shillings. Great Britain did not then try to go to gold point?—Because it could not.

2108. It doesn't matter. The fact remains that it did not. I am mentioning a fact. But later on she did. The presumption to the ordinary man in the street is that there was something in 1920 which did not inspire confidence then on the part of Great Britain that things were in a fair way, which later on perhaps prevailed?—It may have been the recovery of trade and the recovery of England itself. So far as I can see it was in 1919 this trouble began. Before that policy the sterling rate was at 4 dollars and 76½ cents. In March, 1920, there was a very great divergence in the value of the dollar and after that continuously the Government of England has been trying to bring the sterling to gold parity.—From the end of 1921 or so. I think it is regularly coming to that. In 1920 it would have been impossible.

2109. The decision of the Government in England does not inspire confidence in you that it must have taken cognisance of all the world conditions?—I don't say it does not inspire confidence. But I would like to know the reasons on which they worked. Without knowing them I do not know exactly in what way they were influenced by these considerations.

2110. One more question, Dr. Basu. You realise that we have on the statute the two shillings ratio. You don't think it is a live danger to India to keep that ineffective ratio on the statute?—I have indicated already that it ought to go as soon as possible.

2111. But we are now thinking of the present or the immediate future. We are not thinking of the ultimate ideal when central Europe is all built up and everything is rosy and happy and we can say that the world has recovered. In the meantime, with this two-shilling ratio on the statute of India do you not think we are running a very serious risk?—I have no objection to its being abolished.

2112. Would you substitute nothing?—No.

2113. (*Chairman.*) That, of course, is the effect of what Dr. Basu has been advocating throughout, that there should be no official regulation at all.

2114. (*Sir Purshotamdas Thakurdas.*) Leave it absolutely to the commercial world to play with it—for 1s. 3d. or 2s. 2d., whichever they liked?—Ultimately it is left to the commercial world.

2115. And your motive for that is that the gold standard reserve must in the meantime not be touched. Whatever variations there may be, this gold standard reserve must be preserved for some future date when we may need it?—Yes.

2116. (*Sir Henry Strakosch.*) I should like to take Dr. Basu back to the question of reserves. You insist upon the necessity of having two reserves—one to stabilise the exchange and the other one as a currency reserve. Could you tell us whether you know of any system which rigidly separates the reserves in this fashion?

2117. (*Chairman.*) I think Dr. Basu said that, if a system could be devised for a combination of reserves which would secure at the same time the automatic contraction and expansion of the currency according

to the exchange position, then his objection to the combination of reserves would be removed. I do not know if that is of any value.

2118. (*Sir Henry Strakosch.*) I was trying to get to that point. Do you know of any such system?—No, because the gold exchange standard does not exist elsewhere.

2119. But the gold exchange standard was in operation in a good many countries before the war?—Not the gold exchange standard in its perfect form but only a breakdown from the gold exchange standard. Before the war some countries had the gold exchange standard—they were merely following the example of India. India also introduced it after a breakdown in 1899 and after the unfortunate experiment of 1900 Government tried to have the gold actually in circulation. Since then we can say that our standard has become a gold exchange standard. India did not adopt it deliberately but simply by accepting the breakdown in the prospective gold standard. And the other countries all got their system from India. So if you don't find that the system was worked out scientifically, that should not deter us in any way, because no country arrived at it in a scientific way. I would have it fixed by having this automatic factor introduced into the gold exchange standard.

2120. Would your requirements be met if the management of the currency were transferred to a real central bank with adequate provisions for holding a gold exchange reserve?—Separate from the paper currency reserve?

2121. No, one single reserve in the hands of a proper central bank who would have the right of note issue and which by statute would have to keep certain reserves?—The difficulty is that, if there is not a separate reserve, there would not be this automatic expansion and contraction, and this automatic expansion and contraction is a vital matter, because they place the gold exchange standard on exactly the same footing as the gold standard.

2122. But if the bank statutes and the law were to provide that the bank was to hold a certain percentage of its note issue in the form of gold exchanges, would not that automatically contract and expand the currency?—The bank is to hold certain percentages of a total reserve for exchange purposes?

2123. A certain percentage of its note issue as a reserve?—For exchange purposes?

2124. For maintaining the stability of money, internally and externally?—I do not exactly follow how this will bring out the automatic operation.

2125. Well, let us suppose that the bank held an amount of foreign currencies as reserves against its note issue. If some of these reserves were withdrawn because there happened to be a demand for foreign currency, the reserves would fall and naturally the circulation would contract, would it not?—Yes, that would be all right, but then the foreign currencies would have to be held in India, so you don't eliminate the cost of transporting the gold. Then all the bills for making international payment would have to be dropped.

2126. I think you have misunderstood me. Suppose a central bank holds a certain percentage of its note issue in the form of foreign currencies, let us say balances in New York. If there is a demand for New York exchange in that country, the bank will release that dollar exchange and would in payment for it receive internal currency. Would that not automatically then contract the currency in spite of the fact that there was only one reserve?—That is to say, the gold standard reserve is to be merged in the paper currency reserve?

2127. That is it.—But it will be held in different places outside the country.

2128. Right.—That will contract the currency in those places; but how will it contract the currency in India?

2129. By the sale of foreign exchange.—Suppose the Secretary of State draws bills on India, then the currency reserve there increases, and when they are presented here then money will be let out and there will be an expansion of currency in India.

2130. I was thinking of the reverse process. I was thinking of a demand for foreign currency and the consequent contraction of the circulation. I was trying to get at the point whether a single reserve operated in that fashion does not automatically contract and expand the currency?—Then if the currency is contracted in India as the result of that, it may not be kept out of the circulation. For other purposes Government may release that money.

2131. I am thinking of the bank. When the notes come back into the bank the notes are cancelled. They don't exist. The circulation is contracted to that extent and the reserve correspondingly.

2132. (*Chairman.*) You would have a fixed proportion of reserves?—It seems that your proposal provides for the automatic operation I want, although I would like to have more time to think of its full bearing in connection with this automatic exchange.

2133. (*Sir Henry Strakosch.*) There is one other point. You said that the time had not come for the fixation of the rupee exchange and you suggested that the reason for the desirability of postponing it is that the countries of the world have not regained their pre-war prosperity, and that trade is on the whole far below what it was in pre-war days. Do you want to suggest that it depends upon the volume of production in a country whether it is capable or not of maintaining the stability of its money?—The volume as well as the fluctuations in the external trade. The fluctuation is more important.

2134. Is it possible for a country to be permanently out of balance so far as its external payments are concerned?—I don't think I follow you.

2135. Is it possible for a country's balance of foreign payments to be upset for any length of time? Yes. I suppose it is possible that the external balance will be upset for some time.

2136. By what process?—There may be a continuous excess of credit over debit by say investing money abroad—not bringing in the money. Or when they postpone the payment of debt for some time, as England did for some time, by selling securities in America and other countries.

2137. But the sale of securities settled the balance. —There would be this upset if the Government did not interfere. I have given you a case where there would have been an upset but Government came and stopped the upset by the sale of securities.

2138. Does it not depend upon the willingness of countries abroad to lend and that willingness may cease if a country continues to borrow abroad on private account, and does not that automatically restore the balance of payment?—In a certain time. Of course in the long run no country can have an obligation of credit over debit. They must be equal.

2139. (*Chairman.*) I think there is one point on which your opinion may be of great value to the Commission. What is your view about the relative advantages and disadvantages of the policy of circulating small notes below the value of Rs. 5?—I think the one-rupee note has become highly popular in big towns at least.

2140. You think the one-rupee note has become highly popular?—It has become highly popular in the big towns at least. Even in the villages we find the one-rupee note is in circulation.

2141. Do you know of any practical or economic disadvantages attaching to the circulation of the one-rupee note?—I have seen it stated that the thing is rather costly, that the one-rupee note deteriorates very quickly.

2142. On the whole you would regret the discontinuance of the one-rupee note?—It has not been

stopped yet I think,—only the Rs. 2½ note has been stopped.

2143. The issue of all the denominations below Rs. 5 has, I think, been discontinued. Do you applaud or regret that state of affairs?—I should regret it.

2144. (*Chairman.*) I do not think there are any further questions. Dr. Basu has given us a very full elucidation of his views in his memorandum, and I should like to express our thanks to him for his assistance to-day and for his helpful memorandum.

The witness withdrew.

Mr. H. L. CHABLANI called and examined.

2145. (*Chairman.*) Mr. Chablani, you are a Master of Arts and head of the Economics Department of the University of Delhi?—Yes.

2146. Since when have you occupied that position? —Since 18 months back.

2147. And before that?—I was for one year at the Elphinstone College, Bombay, five years at Benares as the Head of the Economics Department of that University and before that also I was a professor in a number of colleges. I have been a professor since 1912.

2148. You have been so good as to furnish us with a very full* memorandum?—I am afraid it is rather brief.

2149. I think, though brief, it is most comprehensive. It will enable me to economise time in asking you the few questions that I have to ask. I will try, in the first place, to ascertain which points in your memorandum you specially emphasiso and, in the second place, to elucidate the matter in your memorandum which appears to need elucidation. I understand that the principal views developed in your memorandum are . . .?—May I say one or two words regarding the difficulties that the non-official witnesses experience in giving evidence before this Commission? I would like to point out that they have not got any statistical department at their own houses, and I think the Commission will be facilitating matters very much if the memoranda prepared by Government officials dealing with statistical information are made public property.

2150. A note will be made of your observations. Are there any other observations that you wish to make?—That is the main thing; because the figures that I give naturally will not be so reliable.

2151. We know there are great difficulties as regards access to statistics in all matters of Indian currency, and I may say that the Commission has already experienced them itself, in spite of its command of official sources. Now the chief views developed in your memorandum are that you desire to fix a wide limit within which the rupee should be stabilised, that you are opposed to a gold currency, and that you are in favour of an exchange standard of the sort which you have outlined in your memorandum. The first question which I want to ask you is with reference to the paragraph headed "answer to question 1." At the head of your first paragraph to that effect, you say: "In my opinion, it is premature to stabilise the rupee at any fixed rate in terms of gold at the present moment; Government ought to profit by the mistakes committed in 1920." Apart from the question of American policy—(an exception which you will readily understand)—are not such fluctuations as are foreseen in gold values in your paragraph such as are a permanent feature of the use of gold as an international currency, or is there anything which leads you to suppose that those fluctuations will diminish? —I personally believe that there are a very large number of uncertain factors; for instance, the policy to be adopted by the Central Banks in co-operation with one another. That is a material factor and we know nothing about it. Nor can we say, as I have said in my memorandum, that we can be quite sure as to whether the gold will actually be allowed to circulate in some countries or not. Only two years ago the gold standard was reported to have been re-established in Switzerland and the first report that the public had was to the effect that gold was found to circulate over the counter. So we can say nothing definite. There are many uncertain factors to which I have referred in my written statement. Probably they may clear up in a couple of years.

2152. To take it by steps, first of all as regards the changes in the gold value of the sort referred to in your quotation from Sir John Fergusson, are they not in fact a permanent feature in any country in the world in which the gold standard is generally adopted?—Yes, that is true in a sense; but we hardly know what the demands of the world would be for monetary construction.

2153. Now taking the special circumstances to which you refer, you say that there is a doubt as to what might be the result of the possibility of co-operative action between the Central Banks. Have you contemplated the fact that it may be said that at the present time there is effective co-operation between the Central Banks, in so far as there is consultation for the purpose of controlling the gold demand between the Bank of England and the Federal Reserve Board, which are perhaps the two most important authorities in question. In a word, do you think that, as a matter of fact, effective co-operation between the most important controlling forces may be said to have been already achieved?—I do not think it has been achieved. Undoubtedly the Central Banks and the Board seem to be agreed; but we do not know whether co-operation is going to develop fully on the lines which the Geneva Conference contemplated, viz., a settled discount policy, a settled policy regarding the purchasing power of gold in the various countries.

2154. If you have the Bank of England and the Federal Reserve Board co-operating as regards the discount policy and the distribution and control of gold supplies, do you think there is anything very important in the way of further co-operation to be added to that state of affairs?—I do not see how it is going to develop. It may be all right for the present. But I cannot say what is going to happen in the next few months.

2155. You distrust the continuance of that co-operation?—Yes.

2156. You refer also to the possibility in future of an increase in the demand for gold for circulation?—Yes.

2157. Is it not the fact that the chief countries which ever have made use of, or are ever likely to make use of, the gold standard have adopted the gold exchange standard as their deliberate policy?—They are on the way to adopt it; but they have not adopted it.

2158. Omitting the case of France?—Italy.

2159. Italy, you say, is on its way to adopting it, but it has not yet succeeded in establishing it?—Yes.

2160. Is there anything which leads you to suppose that Italy is likely to proceed from the adoption of a gold exchange standard to the further stage of a gold standard and gold in circulation?—I at any rate do not feel quite certain. The probabilities are that it will develop on the lines of the gold exchange standard and gold will not be allowed to circulate. But I gave the example of Switzerland. There can be no reliance at all.

2161. Your own view is that the gold exchange standard is the best?—I would not use the phrase "gold exchange standard." I will avoid it.

* Appendix 13.

2162. What shall we call it?—I will call it a gold standard.

2163. By gold standard, you mean in that connection what?—The gold exchange standard as practised in India in pre-war days did not mean that the rupee was legally and freely convertible into gold inside the country. It was only convertible into gold outside the country. The system which I contemplate makes it convertible in either country; only it makes it convertible into gold bullion so that gold coins will not circulate.

2164. I am afraid we have run aground on the question of nomenclature. The question I want to ask you is this: If you are of opinion that the system on which internal currency is convertible into international currency and not convertible for internal use is the best system, and if you find that system being adopted by the chief nations of Europe, I should like to try and appreciate, if I can, why you think those nations are likely to abandon the better standard as you describe it and to continue their development by demanding a gold circulation. I appreciate that you think so, but I have not yet arrived at the reasons why you think so?—The reasons which I have given—taking all together—are all directed to point out that there is some uncertainty in the value to be attached to gold. For instance, the United States would like to produce a fall in prices to enhance the value of gold. It is a balance between a selfish policy and an enlightened policy that the United States may adopt. My main point is that at the present moment, we are very much dependent upon the United States and naturally the United States would not allow a very great rise of prices because it will depreciate enormously the obligations that ought to be paid in gold to the United States and it may probably desire to produce a fall of prices. After all the people of the United States are not philanthropists and in the interests of the world they are not going to sacrifice their own interests.

2165. Referring to what you say in your memorandum about the possibility of inflation in America, is not there always a possibility of inflation in some country?—Yes.

2166. Is it any good waiting for a time at which it will be possible to escape from the possibility of there being inflation in this country or that?—All that I want to say is that at present there is a large stock of gold accumulated in America. After a time when these stocks have decreased, the fluctuations that would be introduced by a policy of the United States will not be so great.

2167. Do you consider that the presence of a large stock of gold in America increases the danger of there being an inflationary movement in the United States rather than in any other country?—All I say is that the factors are uncertain. Just as inflation is likely, deflation is also likely.

2168. I am trying to ascertain whether there is any factor at the present time which makes things more uncertain which, by waiting, may be removed. You refer to the danger of inflation, and I suggest to you that there is always a danger of inflation at any time. By waiting can we get rid of the danger of inflation?—Yes; because the accumulation of the stock of gold will be less in the United States.

2169. You think that the presence of a large stock of gold in the United States makes it more probable that there will be inflation there?—It rather gives it a greater power to produce inflation.

2170. Why should it give it greater power?—Because they have abundance of gold.

2171. Is it not the case that the desire to inflate makes it probable that that is the thing that will happen?—If gold were distributed evenly in the world then the movements of gold will act as a check upon the rise of credit.

2172. You say quite rightly the United States should not be regarded as a philanthropic institution. As regards the interests of the United States themselves, can you see any motive which the United States might have for making use of their stock of gold in such a manner as would upset world prices and exchanges?—I believe they will desire,—at any rate a steady tendency to a fall in prices which means an increase in the value of gold.

2173. I think you have expressed your belief, in the course of your memorandum, that there will be a growing scarcity of gold in the course of the future history of the world?—Yes.

2174. I suppose that if that might be looked upon as a set-off, if one might put it so, against the large stocks of gold in the United States, the growing scarcity will, in the course of time, provide a natural means for the absorption of the gold stock in the United States?—Yes.

2175. And thus tend to reduce any tendency there might be towards disturbance of prices by inflation?—Towards inflation, yes.

2176. Now as regards these general changes in the world's gold prices to which you refer as a circumstance pointing in the other direction of present stabilisation, the processes to which you refer are such, are they not, as will take place in a gradual manner; or have you in mind, in these changes in gold values to which you refer, any sudden and violent changes. I mean, you refer to the decrease in the world's gold supply. You refer, by quotation from Sir John Fergusson, to the cheapening of industrial processes and so on. Are these not all gradual processes which will take place slowly?—They would take place slowly, but even in England at the present moment I cannot take for granted that sterling is absolutely stabilised in terms of dollar. The recent changes show . . .

2177. I should like to take the question of English stabilisation separately. I want to ascertain, if I can, if, apart from the circumstances to which we have referred, there is any possibility of a sharp disturbance to the value of gold prices which you have in mind as a danger ahead?—Yes, I have in mind the very stability of the sterling in terms of the dollar.

2178. Let me take that next as it comes next in the process of your thought. You say: "There is still a certain maladjustment between sterling and gold prices," and I understand you to say that you look upon it as a possibility that there will be another sharp divorcement between sterling and gold. You refer to the recent change. Has that recent change not been the result of the final step in the return to the gold sterling standard in Great Britain? You say here: "Since January last sterling prices have shown a downward trend," and so on. Have not the recent changes in the value of sterling in relation to gold been, the result of the final step taken when the policy of the Government was announced that the pound sterling was to be on a parity with the sovereign?—Yes.

2179. Therefore it is a limited process which terminates as soon as the pound sterling and the sovereign have established themselves at parity?—No. Mr. Keynes' calculations show there is a disparity of 10 per cent., between the purchasing power parity and the cost of living index in England and the United States.

2180. You look forward to a further change in price levels in Great Britain?—Yes.

2181. I put to you the hypothesis that the exchange movement of the pound sterling has anticipated that change in prices which has still to take place, and that the change in prices which has still to take place (assuming that it still has to take place) is no more than the adjustment of British prices to a rate of exchange which is already established?—It is a possibility; I cannot rule that out, but there is the other possibility as well.

2182. Is there any further cause in your mind to expect a further divorce between sterling and gold?—Well, the adverse balance of trade. In 1924 there was an adverse balance. I have not the latest figures before me.

2183. (*Sir Henry Strakosch.*) Of trade or of payment?—Possibly of payment to.

2184. (*Chairman.*) That will raise the question whether, in your opinion, the reserves of the British system are adequate to maintain stability in face of what we shall no doubt agree can only be a temporary adverse trade balance. In your opinion are they adequate or not?—Well, they appear adequate. I notice that the centralised store of gold in England is about 154 million pounds.

2185. We must remember the temporary credits of New York, must we not?—Yes. But we must also remember the liability in the shape of the deposits. The centralised store of gold, against that you have to take note also of the deposits of currency.

2186. You mean American money in England?—In considering the stock of gold you have also to consider the internal needs of gold as the basis of the credit system.

2187. In your opinion, is there anything unsound in the proportion of reserve kept by the Bank of England against the structure of internal credit?—Well, I do not think there is anything unsound considering the fact that the gold does not circulate now in England and the reserve is centralised in one hand.

2188. So that you do not observe any elements of weakness?—The elements of weakness are safeguarded by the credits which have been arranged for in America.

2189. We have not yet arrived, have we, at any element in the situation of the central finances of Great Britain, apart from the one which we have already examined, the maladjustment of prices, which would suggest to you the possibility of any further divorcement between sterling and gold?—So far as maladjustment is concerned?

2190. You are referring now to prices. Unless you have anything to add, I would not go back on that because I have got that clearly in my mind. It has taken me a little out of my path, but it is very useful to clear up that point. Apart from the question of a possible divorcement of sterling and gold, do you see any other circumstance which is likely to cause other than a gradual alteration in the value of gold in relation to commodities?—Yes, there is the demand for monetary reconstruction in the world.

2191. Yes, we have dealt with that too. Supposing, if I may ask you to meet me on a supposition, there are no other conditions than such as would produce gradual alterations in the value of gold of a rate such as those which we saw before the war, would you then say that conditions have become favourable for stabilisation at a fixed rate?—Yes.

2192. (*Sir Henry Strakosch.*) I would like to ask some questions with reference to certain statements you made. First of all, regarding the redundancy of gold in the United States of America. You are no doubt aware that the United States had to absorb something like 523 million sterling of gold. Would you say that American prices have been particularly unstable in spite of this influx of gold?—No, they have been managed prices, practically speaking. It is not left to the automatic working of the gold standard.

2193. In fact, is it not fair to say that prices in America since the beginning of 1921 have been practically stable right through?—Well, I have not got the figures before me.

2194. I have the figures, and if you like I can show them to you. Then what do you ascribe that to, that stability in spite of the flood of gold which went to America and which uncontrolled ought to have sent up prices sky-high?—The Federal Government did not allow it.

2195. Therefore it was the policy of the currency authorities in the United States to avoid a rise in prices. Does that not indicate that they are fully conscious of the necessity of maintaining prices stable?—In America, for the time being.

2196. America alone being on the gold standard, they have appreciated that it is essential for gold prices to remain stable, and they have managed it exceedingly well in spite of an overwhelming flow of gold there. What entitles us to suppose that the United States will depart from this policy when the flow of gold has to a large extent subsided?—Its interests abroad. It is interested in the fall of prices, being a creditor nation to which all other countries have to make payments.

2197. But having had the opportunity for the last four years to turn the scale in its favour and not having taken it?—It had not the opportunity because all the opportunity that it had was to raise gold prices which must produce a fall in the value of gold, but I am talking now of the rise in the value of gold.

2198. Is it in the interests of the United States that the purchase price of gold should be greater?—It should be greater.

2199. And how do you think that will be achieved?—By parting with a little of its gold for the monetary reconstruction of the world and by regulating the rate at which it would part with gold.

2200. How could they benefit the world by parting with their gold and at the same time depress prices?—Yes. All that I say is that it will part with a portion of the gold, in such a fashion as on the one hand to lead to the use of gold as a reserve for currency purposes, and on the other hand to lead to such a demand for monetary reconstruction as will raise the value of gold; because it is interested in having a much greater purchasing power for the stock of gold it holds.

2201. According to the statement you have just made, it must part with the gold in order to reconstruct the world?—That, as I said, is a compromise between enlightened policy and its own interests.

2202. How could the world be reconstructed if you have a period of falling prices; in other words, instability of prices? Obviously, you cannot reconstruct the world by creating a condition of instability?—But you can create a condition of comparative stability and yet produce slowly a fall of prices.

2203. But that would impede reconstruction, would it not?—Not necessarily. There have been cases when, in spite of a fall in prices, there has been economic progress.

2204. Why should the Conference at Genoa have been so terribly afraid of gold becoming scarce and prices falling in consequence, and therefore advocated the universal adoption of the gold exchange standard?—Because if all the nations began to compete for the supply of gold that America has, they will bid a higher price for it; this is to stop that competition.

2205. Exactly. Therefore the world, one may say, realises that a fall in prices is injurious, especially during the period of reconstruction?—Quite true: but the question is how far that realisation in thought is going to lead to co-operative action.

2206. Would you say that, if the redundant stock of gold held by the United States were divided up amongst the other nations, the greater the area of countries that embrace the gold standard, the less likely will it be that the United States could control the movement of gold prices?—Yes.

2207. You agree?—Yes.

2208. Do you realise that at the present moment there are countries in the world inhabited by about 170 million people who have already embraced either the full gold standard or the gold exchange standard?—Yes.

2209. And that the United States population is 115 millions, and that the process is continuing?—Yes.

2210. Might one therefore not suppose that the United States is not almighty in controlling gold prices?—Will not be almighty after a time; it is almighty at the present moment.

2211. At the end of 1924, according to the work of a very eminent statistician, the United States of America then held 44·6 per cent. of the total stock of gold money in the world and the balance was held by other countries?—I am sorry I have not got the figures.

2212. You may not have, but I believe they are correct. 44·6 of the world's gold money was then held by the United States and the balance in other countries. Therefore, as the area of gold standard countries increases, we must suppose that the power of the United States to control gold prices will diminish?—But the power of the United States to control gold prices proceeds not from the fact that they have a particular quantity of gold at the present moment, but that they have a greater surplus to spare than any other country. Other countries have got a deficiency in their supply, and therefore are not in a position to control the value of gold.

2213. Would you say that Great Britain has a deficiency in the supply of gold?—If we consider that Great Britain aims to be the international money market of the world, I should think there is need for more gold in England.

2214. Do you know the amount of gold in Great Britain now?—About 154 millions.

2215. Do you know what it held before the war?—Yes. But you must remember also that before the war nearly 120 millions was in circulation according to one estimate.

2216. I think that is rather an over-estimate?—Besides, there was a large amount of gold in the other banks. Now the whole stock is centralised.

2217. Would you call gold in the pockets of the people available for international purposes?—To a certain extent.

2218. But only to a very trifling extent, I suppose?—I would not say that it would be as servicoable as a central stock of gold, but in the case of an adverse exchange it is useful.

2219. One other point. You referred to maladjustment of prices in England, and in your memorandum you say that there is still maladjustment of prices. You have no doubt followed the movement of gold prices in the United States and in Great Britain?—Yes.

2220. And no doubt you will have observed that gold prices in the United Kingdom have been steadily falling from 175 in January, 1925, to the present figure of 158?—May I know what Index number you are taking?

2221. These are the Federal Reserve Bulletin figures; these are the wholesale prices?—From my comparison of the cost of living index numbers, the difference is to the extent of 10 per cent.

2222. The cost of living index is hardly the index to take as a measure of the level of general prices?—If you want to know whether the wages have adjusted themselves to the new conditions, you have to take the cost of living index number.

2223. Even accepting that, has not the movement been very strongly towards parity with United States gold prices?—There is a 10 per cent. difference.

2224. I know exactly what you are referring to. You are speaking of a pamphlet issued by Professor Keynes some little time ago; but the world has not stayed still since then; prices have gone down as indicated by the wholesale index?—Yes, prices have gone down.

2225. If you take 1913 figures at 100, you will find that the United States prices to-day are 165 and British prices 158, practically in adjustment, if not in favour of Great Britain?—You are not taking the index number of the cost of living at all.

2226. Because the wholesale index is generally accepted as the best measure of general prices?—But that will not give us the true purchasing power parity, only a rough guess.

2227. I won't go into that question, but I think I am right in saying that the purchasing power parity is worked out as a rule by taking wholesale indices, not retail indices, because all these retail and cost of living indices vary very widely according to the countries?—Not of all articles. The proper index number to take would be the index number of prices of particular commodities that enter into international trade.

2228. You refer to an adverse balance of trade in Great Britain. Do you suggest that there is an adverse balance of payments?—There was an adverse balance of trade, which must lead to payments being made.

2229. But the balance of trade does not include what is generally called the invisible exports and imports trade?—It does not.

2230. Very well. Can you therefore judge from the balance of trade what the balance of payments is?—I cannot be certain of it.

2231. Then I suggest that the statement that there is an adverse balance of trade requires modification?—I only said that with a view to pointing out the probability of uncertain factors.

2232. But would you be surprised to hear that Great Britain is still in a position because of its favourable balance of payment to invest something in the neighbourhood of 50 millions sterling a year outside the country?—I would not be surprised.

2233. Then why should that be an unfavourable feature for the future stability of money and prices?—Because Great Britain cannot altogether give up the idea of lending money to other countries. It has to think of other countries too.

2234. Within its means?—But it has got to think of its imperial interests.

2235. (*Chairman.*) It cannot go indefinitely lending money it has not got?—It can borrow at a cheaper rate and lend it at a higher rate.

2236. (*Sir Henry Strakosch.*) Have you heard of any borrowings of Great Britain abroad?—The fact that they have large credits in the United States shows that they will borrow money when required.

2237. But have they done so?—They have not; all that I am arguing is that it is uncertain, and that you cannot say what they are going to do.

2238. (*Sir Maneckji Dadabhoy.*) I understand you to say that you consider it premature to stabilise the rupee at a fixed rate in terms of gold?—Yes.

2239. For two main reasons; one is, I understand you to say, the want of effective co-operation between the Central Banks, and you also think that we are not at present sure of what is going to be the future policy of the United States with their huge stocks of gold. You cannot say, therefore, what will be the future price of gold?—My general ground is that the future trend of gold prices is uncertain; others are merely sub-reasons.

2240. All the factors regarding the supply and demand of gold are uncertain; among them the main reasons which you have mentioned are only two?—Weighing the factors on one side and the factors on the other, we oannot be sure what is going to be the net result.

2241. You apprehend, therefore, that there may be a fall?—But I do not rule out the possibility that there may be a rise, and then also there is going to be instability.

2242. Is it in the interests of the United States with all the stocks of gold at their command to manipulate a fall in price of gold?—I should think so. How?—Because they have to receive payments from others in gold.

2243. (*Chairman.*) That, I think, was Mr. Chablani's previous answer to Sir Henry Strakosch.

2244. (*Sir Maneckji Dadabhoy.*) It is not clear. Would not the effect of the United States parting with gold take away from that country the power to control prices?—The more it parts with gold the less will be its power.

2245. Now I want to come to the question of the new rate. You express the view that the authorities can, without any very great risk, announce that they will use all their resources to keep the rupee between 1s. 4d. gold and 1s. 6d. gold. As I understand you, the policy you recommend is that the machinery of an exchange standard should only be brought into operation in the event of a rise above 18d., and in the event of a fall below 1s. 4d.?—Yes.

2246. That leaves a very wide limit for the fluctuation of exchange. Do you consider that it would inflict any detriment upon both the international and the internal trade of the country that exchange should be free to fluctuate between those very wide limits?—I believe it will make for a greater certainty than exists at present. Even these wide limits are narrower than the limits possible otherwise.

2247. I understand from your argument that one must not compare this proposal with stabilisation at any given rate, for the reason that you do not believe that any given rate could with certainty be maintained?—Yes.

2248. But there has been a very substantial approach towards stability of the exchange rate, has there not, in the course of the past six months or a year?—Yes, there has been some approach, and the policy of Government has tended to practically fix it at 1s. 6d.

2249. Has not that approach to stability been due to the circumstance that 1s. 6d. has been chosen, for instance, as the rate above which exchange is to be prevented from rising by the use of the methods of the exchange standard system?—Yes.

2250. Supposing one were to throw tho limits open so widely as you propose to throw them, would that not increase uncertainty and tend to the loss of such stability as has already been gained?—I do not think that it will create greater uncertainty. Because after all Government would be expected to follow the policy of stabilisation as much as possible even after you fix these limits.

2251. Supposing there was a downward tendency in exchange from the present rate, and it is known that there is to be no use of the resource of stabilisation until 1s. 4d. is reached, is it not likely that there will be many more fluctuations between 1s. 6d. and 1s. 4d. than there would be if one were to make use of the exchange standard machinery to keep the rate as long as possible at 1s. 6d.?—All that I said is that the Government should make the attempt to keep the present rate as far as possible; but suppose the forces are beyond its control. That is why I do not want to fetter the discretion of Government.

2252. You think that Government, or whoever is in control of the machinery, should use that machinery to keep the rate at the present rate as much as possible?—Subject to what I have said afterwards as to the effects of the tariff. It would have been the proper rate if there had been no high tariff or protective legislation.

2253. If that be so, the authorities would not permit the rate to fall away from the present level unless it was obliged to do so by forces beyond its control?—I am more inclined to 1s. 4d. than 1s. 6d., for the reasons that I have stated in my memorandum. In my opinion, considering the high tariff, the rate should be 1s. 4d.

2254. It is not very relevant to my present question whether it is 1s. 4d. or 1s. 6d. Supposing we take some rate, the present rate or substitute 1s. 4d. as the rate to which Government is to keep the exchange as stable as it can, what *then* is the object of choosing some other figure with a wide margin between that figure and the present figure as the furthest point beyond which exchange is not to be allowed to move? Is that not introducing an unnecessary condition?—No, there will be the certainty that the Government has a settled policy not to allow the lower limit or to go further away beyond the upper limit. At present there is no certainty in the market. People will be speculating at 1s. 8d. or even at 2s.

2255. If it is to work to 1s. 4d. you recommend that it should not have to go away from 1s. 4d.?—Yes.

2256. Supposing the rate is forced up to, say, 1s. 6d., would you allow it to go beyond 1s. 6d.? What is the object after inserting one peg to insert another? If one peg goes the other goes?—The object is this. So far as the upper limit is concerned, it is within the power of Government to control it absolutely because Government can put in as much currency as they like. They can expand currency and bring it down to 1s. 6d., even if there was a tendency to send it up; and the market will be sure, that there will be no financial stringency in the market, and the Government with imports of gold will come in for 1s. 6d.

2257. Now we arrive at the next point, in which you express a strong preference for a gold exchange standard to a sterling exchange standard, for the various reasons given?—Yes.

2258. Have you considered in this connection, tho practical conveniences of having your exchange related to the currency in which the great part of the trade of the country is settled?—Yes.

2259. What importance do you attach to that circumstance?—I believe if instead of a sterling exchange standard we have gold exchange standard as permanently fixed, the rate would be fixed in gold. More such transactions will be transacted in gold.

2260. I do not quite follow you, I am afraid?—At present most of the transactions which India enters into are settled in terms of sterling, but should there be any doubt about the parity of sterling with gold I expect that the transactions would be transacted more in terms of gold than in sterling?

2261. Not only " may be " but it is the case, is it not, that the great bulk of India's foreign trade is settled atually in sterling?—Yes.

2262. I understand the effect of your answer is that, as long as gold is not separated from sterling, then there is no difference between the two standards. But supposing there is a slight temporary divorcement between gold and sterling, does it not introduce complications and difficulties in regard to India's foreign trade?—It does to a certain extent, but the stability of the standard is very much greater if we are independent of the course of prices in England.

2263. Assuming, as I have for the sake of my question, a temporary and slight divorcement only, you are then, are you not, incurring a practical inconvenience for the sake of a theoretical perfection?—It may amount to a theoretical perfection at the present moment.

2264. It would only become of practical importance in the case of a further prolonged and large divorcement?—Not only that. It does create a certain amount of confusion in the mind of the administrators. In 1920 we went on raising prices in India because prices rose in England.

2265. Of course that was a conspicuous instance at that time. I am not sure that I have really followed your proposals as to the manner in which the reserve should be held on the system you recommend. In what form would you propose to hold the reserves?—In gold bullion.

2266. In gold bullion only?—Yes.

2267. The whole mass of the reserve?—No.

2268. I know you somewhere express the opinion that there is no reason why a portion should not be held in credits in foreign countries?—Yes.

2269. In what form of credits are you contemplating the holding of your reserves there. I am not talking about the actual form of securities but as to their allocation?—In India.

2270. I mean the foreign?—Of course preferably it will be in English securities mostly.

2271. You are not suggesting, as some witnesses suggested, that it would be essential to hold some of the securities in each of the large gold standard countries?—I do not think we ought to aim at a theoretical policy of no risk absolutely; but if for instance a small portion is held in United States securities it might be convenient for some time to come, as the United States at the present moment is one of the best centres for gold.

2272. Would it be of any practical utility in regard to the settlement of India's trade and the conditions under which it is likely to be used that a proportion should be held in the United States?—I do not think that there would be any practical inconvenience.

2273. I do not know if you are prepared to express any opinion as to the proportion of the internal reserve which you would think it right to hold in gold under those conditions?—No, I am not. I have said with regard to the currency reserve that it should be about 60 per cent.

2274. I think that will come in more conveniently on a future question.

2275. (*Professor Coyajee.*) Coming to your answer about protection, you do not suggest that it is for the State to control and counteract the natural movements of exchange in the interests of the protected industries?—May I know what you are referring to?

2276. I am referring to your answer to question 2 in the memorandum. You say there in answer.—" But that was exactly the object of recent protective policy and the expected result of a high tariff. Certain classes will no doubt suffer from such a policy; but rightly or wrongly the country as a whole consented to pay this price. And Government cannot be allowed to neutralise by its currency policy and the consequent rise in the normal rate of exchange to 1*s.* 6*d.*, the intended effect of protectionist tariff ". But is it for the State to counteract internal modifications of exchange in the interests of protection?—It is not in the hands of trade to control price levels in India; that is in the hands of Government.

2277. To control price levels?—Yes. What Government has been doing since 1922 when the exchange was at its lowest was to produce a fall in prices. In fact the prices have gone down under the effect of contraction. If I may give you the figures—Bombay index No. was 192 in the month of February 1922. It went down in 1925 to 158, while the United Kingdom index number went down by February 1922 only to 158.

2278. Then you say the fall of prices here has proceeded to such an extent as practically to neutralise the intended effect of protection? Then the cost of production of these protected industries will also fall?—The effect of the tariff is on prices as a whole, not merely on prices of the protected industries.

2279. And similarly, if general prices fall, the general wages will also fall? Therefore, protected industries will not lose as you suggest by the fall in prices?—My argument is on quite different lines. What I am pointing out is this, that if the currency policy of India had been the same as before the war, the effect of high tariff would have been to produce a difference of price level betwen India and England. That difference of price level has not now been attained. Since February 1922 prices have fallen in India while the British prices have remained the same. It is not the mere fall of Indian prices that matters. If the Indian price level fell and the British fell to a less extent, the required differences between the two would not have been destroyed.

2280. But what the manufacturer is concerned with is the difference between the price of his cost of production?—Yes.

2281. Then the same factor that lowers prices here must also lower wages and the other costs of the protected manufacture?—Yes, eventually.

2282. Therefore he cannot lose as you suggest by the fall in prices?—But he does not get any protection against English goods, because their rupee price also goes down. There is no difference between the situation in 1913 and now in spite of the protective tariff because there is no difference in the price level. Both have risen to the same extent since the War while Indian prices should rise to a much greater extent to preserve the difference due to protection.

2283. But if the price had remained steady, the cost of production would have remained steady. Is not the producer interested in the difference between his price and his cost of production?—But the price which he gets is determined by the foreign conditions—It is the price of the imported commodities. If that is lowered down, he can't maintain the price.

2284. (*Chairman.*) Is it your argument that tariffs confer no protection at all on the manufacturer at the present level of prices?—My argument only is that the difference which ought to exist on account of a protective policy between prices in India and England does not exist.

2285. You arrive at that by comparing the general Calcutta index with the English index?—Yes.

2286. You have observed no doubt by reference to that Calcutta index number that the prices of the articles of the type usually exported from India are on the whole below the average resulting index number, and that the price of the articles imported into India are as a rule above the resulting average index number; and it suggests itself to me that the prices of the articles which are imported and are liable to tariff are really substantially higher in India than they are in Great Britain?—I don't mean to say that the difference in the cost of production of the English manufacturer and the Indian is absolutely cancelled by this fact. Considering the figures of trade I am rather inclined to think that it has not quite succeeded in this—but the tendency is there.

2287. If you will look at the index number of articles imported into India you will find that the prices are higher than the prices elsewhere, higher even by a larger margin than that which you might expect from the tariff. Would you agree, from your acquaintance with the subject, with these figures?—As a matter of fact imports have been discouraged, in spite of the rise in exchange.

2288. There has never, perhaps, been a tariff which has not exercised some effect in discouraging imports?—I think the real reason why the imports have been discouraged is that their prices in India are still too high for the purchaser in India.

2289. (*Sir Purshotamdas Thakurdas.*) Mr. Chablani, in the last sentence of your reply to question 2 you suggest that Government should maintain the value of the rupee between 1s. 6d. and 1s. 4d., gold. In reply to question 4, one of the main changes suggested by you is that the rupee be made freely convertible into gold bullion at the rate of 1s. 4d., gold. That means that you make gold available on the basis of 1s. 4d.?—No. I do not suggest that as an immediate change but as part of the permanent policy to be adopted.

2290. What would you recommend as an immediate change? On what parity is the rupee to be converted into gold?—I say that Government should offer gold in return for rupees at the rate of 1s. 4d.

2291. At 1s. 4d. That is what I say. Therefore in the statute where we have at present two shillings put in by the legislation of 1920, you would substitute 1s. 4d.?—But in the existing statute there is no provision at all.

2292. I mean gold equivalent at these rates?—No, the Government does not offer gold at that rate in India.

2293. No, but if you offer it to them they would pay you on the basis of two shillings. Instead of that you would substitute 1s. 4d. Government would not only take gold and give you rupees at 1s. 4d., but they would also give you gold at 1s. 4d?—But I say Government should give rupees in return for 1s. 6d., at present.

2294. That is, Government should undertake to give you gold at the rate of 1s. 4d?—They would give you gold on the basis of 1s. 4d., and they would take gold from you at the rate of 1s. 6d.

2295. May I understand it? If you took a sovereign, Government would give you Rs. 13 as 6?—Yes.

2296. And if you wanted a sovereign, you would have to pay Government Rs. 15?—Yes.

2297. Government would have two scales—one scale for receiving gold and another for giving gold?—Yes, for the time being.

2298. How do you think the people here would construe it? I mean surely if they had two different rates to receive and pay, how do you think the people of India, the masses, would construe this change?—For the present I am afraid 1s. 4d. would be practically inoperative. People won't give Rs. 15 for a sovereign.

2299. Exactly. If you fix a rate, then it must be the same rate. You make gold available at the same rate so that Government may be able to give you gold.—I don't agree.

2300. In the case of gold being minted here has there been any precedent for this? Have you heard of any country in the world having received gold at one rate and given at another, for the stabilisation of the currency policy?—I am only advocating it as a policy of transition till you have settled the course to be adopted.

2301. When do you think that period of transition will end? How long will it last? What will be the symptoms by which we should be guided for the termination of this transition period?—I would say till you find the majority of the countries of the world with which you traded have come to the gold standard.

2302. That is to say, till central Europe has revived its trade?—Yes.

2303. Is not what England has done sufficient for India? England appears practically to have said to herself, the condition of Central Europe and the revival of her trade has been put on a basis which is good enough for gold standard. Isn't that good enough for India?—It is quite good enough.

2304. Then why do you put it off for India?—I am not putting it off. I am only putting off the fixing of the rate.

2305. You are putting off the rate because the conditions to your mind are very uncertain?—I doubt the ability of Government to maintain a particular rate.

2306. Do you doubt the ability of the United Kingdom to retain her parity?—To a much less extent.

2307. In fact, you feel very pessimistic regarding the apparent settlement in the important countries of the world?—No, I don't.

2308. You don't?—Conditions have been moving a bit fast during recent months.

2309. Do you expect some disturbance?—If there is to be a disturbance we should not be unprepared.

2310. But why should there be a disturbance?—I have already explained the circumstances.

2311. (*Sir Purshotamdas Thakurdas.*) And my point is that when we are considering the question of what is best for India you are not putting before us any special reasons how trade conditions in India debar you from stabilising your exchange. You say because things are not yet settled down in Central Europe.

2312. (*Chairman.*) Sir Purshotamdas, do you remember the answer in which Mr. Chablani referred to co-operation between central banks, the possible demand for gold in circulation and possible inflation in the United States? I think he has already answered your question in a little detail.

2313. (*Sir Purshotamdas Thakurdas.*) I have no doubt, Sir, and I only mention this because I want to know if Mr. Chablani can tell us how long this period of transition he has mentioned just now is likely to last?—Well, I, personally, believe probably, as things go, the central banks may come to an understanding very soon.

2314. Then as soon as the central banks in Europe come to an understanding you would feel safe in stabilising the rate in India?—I should think so.

2315. Now, until the central banks in Europe came to an understanding you would not feel yourself confident of going ahead?—Probably other circumstances also may change and justify stabilisation even without the co-operation of central banks.

2316. But this is the major one?—It is a thing that might come about much sooner than anything else.

2317. Until that time you would recommend that the Government of India should have two rates, one for giving gold and another for receiving it?—One would be practically inoperative probably for some time.

2318. Which do you expect to be inoperative for some time?—The lower rate. But it will be an assurance that beyond a particular level the rate will not be allowed to go down.

2319. I see. Your idea is to fix the two extremes and get Government committed to them. The uncertainties you have in your mind when you say you must not stabilise do not frighten you from having the two extremes. You think they are wide enough?—Yes.

2320. Are these two points not much too wide for practical purposes for the trade and commerce of India?—They would be wide if Government are supposed to use their discretion arbitrarily in manipulating the exchange. The Government in the interests of the country has actually been manipulating the exchange during the last six months, and I do not expect there will be any greater uncertainty. It does not mean that the Government would oscillate between the two extremes now and then.

2321. It would give the Government a good scope in which to go on playing?—In view of the uncertain factors, Government ought to have some latitude.

2322. (*Sir Henry Strakosch.*) With regard to your proposal to fix the gold point at 1s. 4d. and 1s. 6d., I want to be quite clear what your misgivings are with regard to the possibility of the authority entrusted with the management of the currency maintaining the rate of exchange that may be determined upon. What are the difficulties that you foresee?—Supposing the gold prices fell in England, it would be very difficult for Government to maintain 1s. 6d. without deflation. Or supposing prices fell even further so as to jeopardise even the 1s. 4d. rate, if at that moment Government wanted to maintain 1s. 6d., it would simply mean ruining the country by creating a serious financial stringency.

2323. In other words, you are afraid of a violent movement of gold prices abroad? You prefer to see stable prices internally in India?—Yes.

2324. That is the aim you have in view?—Yes, after having fixed the rate at 1s. 4d. and bringing about the price level at which the purchasing power parity would tend to 1s. 4d.

2325. I am speaking of the period when you wish to fix the gold points between 1s. 4d. and 1s. 6d. What is to be the central aim of your policy during that period? Do you wish to keep prices stable in India in spite of what may happen abroad?—Yes.

2326. Now, do you think that is really feasible, having fixed the two gold points?—Yes, I should think it quite feasible, if Government only exercise discretion in the same fashion as now.

2327. May I give you an illustration? If by any chance the rupee were to appreciate to 1s. 6d., the two gold points having been fixed, is it not clear to

everybody that Government will do, or the currency authorities will do, everything to maintain the exchange value of the rupee at that price, and that it cannot go higher, and would that fact alone not be giving to anybody a free option for the fall of the rupee, and would not that free option be taken advantage of by speculators, by importers of goods, and so forth?—I am not quite clear as to what you mean.

2328. I am trying to show that it would be extremely difficult for you to maintain that level of prices completely, independent of world prices, and for that purpose I am taking your proposition of fixing the extreme limits of fluctuation of the rupee between 1s. 6d. and 1s. 4d., and I say this, that if the rupee were to reach 1s. 6d. would that not be a direct inducement to people borrowing in India to purchase foreign currencies, to lend money abroad, to purchase goods abroad, that is to say, to over-import and to retard exportation; and would all these factors not tend to depress the value of the rupee? And would the reverse not be the case if the rupee were to depreciate to 1s. 4d.?—All that I say is that the speculator will also know that, beyond a particular point, exchange is not likely to go down or go up. He also speculates within certain limits; he knows that to speculate beyond a particular limit would be unsafe in view of the Government policy.

2329. But if you admit that what I have just said is true, then the value of the rupee is going to be thrown towards world prices all the time. And you will not be able to maintain, quite apart from world prices, a level for India?—I do not mean to say that I would be able to maintain it, absolutely independent of gold prices.

2330. I am speaking of gold prices. You wish to keep Indian prices stable at a given point in spite of the fact that the world gold prices depart from that point? And I am trying to show that it would be extremely difficult for you to achieve that. If you fix your gold points within these margins, you would have given an upper limit and you would have given a lower limit and the action and reaction which follows from reaching those points would throw your prices towards world prices?—They would, within limits.

2331. But those limits are given—1s. 6d. and 1s. 4d. —and it is conceivable that you would not be able, if the world prices were to deviate so much from Indian prices, to maintain the 1s. 4d. and 1s. 6d.?—After all in these matters some risk has to be taken. A sufficient latitude has to be given to the Government and the risk has to be taken.

2332. Just imagine the economic effect upon India of having a margin between the stabilization point of 12½ per cent.—prices moving 12½ per cent. up and down; in the one case, as I have pointed out, driving the resources of India abroad, inducing heavy importations, retarding exportations, at the one point and the reverse process at the other point?—At the most the result would be that prices would rise to a level which will justify 1s. 4d. rate. Supposing speculators were to bring about a rise of prices in India, the rise of prices would be towards the length of 1s. 4d.

2333. But what actual facts have you got to prove that the 1s. 4d. rate is the proper rate? If, as the indices rather indicate, internal prices in India are on the way to adjusting themselves to the 1s. 6d. rate, what makes you think that the proper rate is 1s. 4d.?—As I said, I want to produce a difference in prices between India and England to the extent justified by the tariff, which is about 12½ per cent. on the average.

2334. But you cannot permanently produce a difference in prices between England and New York? —Yes, a tariff can. But you are manipulating prices under the present system.

2335. What happens, I think, is that only during the period of adjustment can you keep prices away from parity. There is no advantage to you whether you fix it at 1s. 4d. or 1s. 6d. except during the period when internal prices are adjusting themselves? —I am considering the present situation of prices in England and India and I find that 1s. 6d. practically does not maintain the difference between prices in India and England which ought to exist.

2336. But there are other factors, too?—All the other factors operate both on India and England.

2337. (*Professor Coyajee.*) What is the proportion of protected production in India to the general total production? What I mean to say is that there are two or three industries which are protected and for their sakes exchange should be kept artificially low —I am not justifying or criticising protection at all. Protection may be bad. I am not a protectionist. But that is what you consented to when you imposed it. The people knew when the tariff was being raised that general prices would rise, not merely the prices of imported goods. The prices of protected goods may rise to the full extent of 12½ or whatever the protection is; other prices may rise in a very minor degree, or it may be that imported articles may not rise to the full extent; there may be a dispersion of prices.

2338. The effect of protection is to restrict imports, the tendency is to produce a favourable balance, which will mean a general rise of prices and may operate in any direction?—Yes. I am only indicating the general tendencies.

2339. (*Sir Rajendranath Mookerjee.*) In addition to what Sir Henry Strakosch has explained about the difficulty of the difference between 1s. 6d. and 1s. 4d. being too wide, may I ask whether you are prepared to give to the Government a handle for again manipulating exchange, from which the country is alleged to have suffered so much. Would you give Government the same opportunity again?—You should entrust that power to somebody during the period of transition.

2340. You remember the criticism and the attitude of the Legislative Assembly in that connection in the past?—But a Committee of the Assembly will be even less satisfactory than the Government.

2341. (*Sir Maneckji Dadabhoy.*) I understood you to say that you give this power of deviation or discretion to Government to play between 1s. 4d. and 1s. 6d. to avoid violent fluctuations in exchange? Your object is to prevent violent fluctuations?—No, my object is only this. In view of the uncertainty of the trend of prices, we do not know as to what you will be able to do, and that if Government decides on fixing the exchange and gold prices fell, I suspect that the margin would be so wide that Government may not be able to manage it. Therefore Government should have discretion to adapt their policy to the changing circumstances that may arise in the near future.

2341A. Taking that as the basis of your argument, would it not be equally safe if Government fixed on 1s. 5d. instead of the deviation between 1s. 6d. and 1s. 4d.?—No, because under my scheme the Government would be bound to maintain a minimum of 1s. 4d.—not higher. The resources of Government for maintaining this are much higher in the eventuality of adverse circumstances.

2342. On account of the manipulation of tariffs?—I am not talking of tariffs at all. The power of maintaining a rate of 1s. 4d. is much greater than 1s. 6d. in the face of adverse circumstances because after all the resources of the Government are limited and so also power of the country to stand deflation. If this power is given to Government, it would not interfere with trade and ruin confidence. Rather it would restore confidence.

2343. So with a difference of two pence, still people would not hesitate to go in for large imports and the fact that the Finance Member would be manipulating dexterously in view of the changed circumstances?—The same confidence which is now reposed

in the Finance Member would also be reposed then. This is only an additional circumstance.

2344. You have stated that importers are discouraged because of the trade depression of the world? You cannot stop the general depression. What is the cause of general depression?—The cause is that the wages have not adjusted themselves to the altered circumstances.

2345. (*Sir Alexander Murray.*) Is this a suitable point at which to draw the attention of Mr. Chablani to the last sentence of the first paragraph on page 96 (Appendices), where he says "if owing to external causes beyond our control, this stability in internal prices does not give us stability of exchanges I would leave the exchanges to their own fate." What does he actually mean by that?

2345A. (*Chairman.*) Perhaps you would stick to prices and let exchange go its own way?—Yes.

2346. (*Sir Alexander Murray.*) Even agreeing that the volume of internal trade is larger than that of external trade, is the latter not large enough to justify an attempt to fix some rates of exchange?—May I explain what I mean by this? All that I mean is that we must stabilise the rupee in terms of gold—that we should have the same prices as gold prices. If, for instance, there are the fluctuations in the sterling prices in England, we ought not to change our internal prices. We should be independent of that. That is only in the event of sterling and gold not keeping company. The whole trend of my argument is that I am opposed to the linking of the value to the varying circumstances of exchange of any particular country. I rather would have it linked with gold so that we may have the same prices as the gold prices. Taking a simple fact, supposing France does not restore gold standard and we have fluctuations with the Paris Exchange, we need not care a twopence for it. We are not going to change internal prices to suit the Paris Exchange.

2347. You will link yourself to gold and not care what happens to the exchange?—Yes. So far as the gold standard is restored it will give us stability with gold exchanges, exchanges with the gold standard countries. But so far as the currency of those countries deviates from gold we should not change our policy of internal prices.

2348. But you must fix a ratio?—Yes, in terms of gold.

2349. And in the meantime that would remain somewhere between 1s. 4d. and 1s. 6d.?—During the period of transition.

2350. (*Chairman.*) Mr. Chablani wishes to have it at 1s. 4d. for the lower point and 1s. 6d. for the higher point, not somewhere between them?—Yes.

2351. (*Sir Purshotamdas Thakurdas.*) To the extent of fluctuations in gold prices in the world, of course the Indian prices are liable to fluctuations?—Certainly.

2352. (*Chairman.*) To do full justice to your views we should summarise them by calling attention to the fact that you are of opinion that, without taking the tariff into account, Indian prices have adjusted themselves to the present rate of 1s. 6d. That is an opinion expressed in your memorandum, I think?—Yes, at present.

2353. But you express a preference for 1s. 4d. as the lower rate?—Yes.

2354. And 1s. 6d. as the higher rate?—Yes.

2355. But you are not in favour of any positive action to reduce the exchange to 1s. 4d.?—No. There is one other fact which induces me to fix these limits. Suppose instead of a fall there is an actual rise of gold prices. Suppose that gold prices rise to such an extent as to maintain the required difference of price level between England and India and even go beyond, then, under those circumstances, 1s. 6d. might be the correct ratio.

2356. I am right in saying, am I not, that you do not recommend any positive action to reduce the rate to 1s. 4d. in the nature of increasing the currency?—Not till we know exactly where we stand so far as the world prices go.

2357. You leave that to natural forces?—Yes.

2358. Supposing that the policy is announced and that there is to be no intervention until the rate has fallen to 1s. 4d., do not you think it is possible that there might be speculative prices which would drive the rate straight down to 1s. 4d.?—Yes, it cannot go beyond that at any rate.

2359. You do not, I think, lay very much stress upon the injuries which might be inflicted upon the whole community by serious and violent fluctuations between 1s. 6d. and 1s. 4d.?—I think it is a restoration rather than injury because since 1922 the prices have been made to fall.

2360. Now, to continue, I want to emphasise your opinion on one or two leading matters. Are you in favour of the transfer of the control of the note issue, and the reserves upon which that issue is based, to the Imperial Bank?—Yes, under proper safeguards.

2361. Which I will ask you about in a moment. As a part of the method of transfer, are you in favour of a combination of the existing reserves into one reserve under the control of the bank?—Yes.

2362. I think it would be of interest if you could state very briefly your reasons in favour of the combination of the two reserves into a single reserve?—My main reason is that the rupee being practically a note printed on silver, in my scheme of the convertible rupee I want to ensure sufficient reserve for Government to give gold in return for rupees in India, just as Government will give rupees in return for notes in India. Just as we have convertibility of notes, we shall have a convertibility of rupees under my scheme.

2363. What form would that convertibility of the silver rupee take?—In return for silver rupees Government will give gold bars.

2364. To a minimum amount? What will be the size of a unit of gold bars?—That is a matter of detail. I am not prepared to say off-hand what limit there should be. It is rather a practical detail. In England for instance the limit is struck at about £1,700 or something of that sort—or 400 oz. So on account of the fact that the reserves would be in India and the rupee and the note are practically the same, one printed on silver and the other on paper, the policy regarding both ought to be the same, and it would simplify matters if both are combined. There is another thing. The present position of the paper currency reserve shows that practically the gold standard reserve has been used up because you have got the Treasury bills still backing the paper currency; amalgamation will only mean the cancellation of these.

2365. On what basis would you estimate the quantitative liability in respect of the silver rupee currency which you are undertaking on this system?—I would consider the maximum amount that will be required by India in the case of a famine or weakening of exchange in the light of past experience. I will have sufficient stocks of gold to make it possible to give gold in exchange of rupees in these cases.

2366. Shall we call it the maximum possible contractibility of the currency. That you would look upon as a true measure of the liability which you are undertaking?—Yes.

2367. Finally on this head, will you tell me why you lay special emphasis on maintaining, as regards the bank's method of presenting its accounts, separation between the issue department and the banking department?—Because I fear that the public confidence might be a little shaken if it is announced that the note is not the Government note but is in the hands of the bank. With a view to ensure that the paper currency is managed on the lines dictated by the Government the issue department shall be

distinct from the banking department and the reserve that will have to be maintained against the issue department should be very clear to the public. Not merely that; there is also another reason. At present the notes are really secured on the revenues of India. So the bank would practically be an agent on behalf of the Government in issuing notes rather than a note issuing department in a complete sense.

2368. Do you think that the method from the public point of view, shall I say from the point of view of the uninstructed but interested public, of representing the accounts of a central bank under the two headings provides in fact a more clear and intelligible picture of the position than the Continental method of combining the two departments?—I think in view of the lack of intelligence of the public it is absolutely necessary. I base it mostly on the psychological effect on the public mind.

2369. You do think then that it enables them to understand the position better?—At any rate it will enable them not to misunderstand the position if some people are interested in misrepresenting it.

2370. Oh, I see. What you really think is that it makes it more difficult for an ill-disposed bank to make the position obscure to the public, and that is no doubt an important consideration?—Yes.

2371. (*Sir Purshotamdas Thakurdas.*) When you give approval to the transfer to the Imperial Bank, whose notes should the Bank issue, the Bank's own notes or the Government notes?—In the beginning certainly Government notes.

2372. It would mean only that the Currency Department of the Government of India would be managed by the Imperial Bank?—By a bank rather than a Department of the Government.

2373. The bank would not be issuing their own notes at all and therefore the account will have to be separated in any case?—Yes.

2374. Do I take it that you are against the bank issuing its own paper?—I am, for the simple reason that it is a public function and all the profits should go to the public.

2375. If a scheme could be devised by which the profits could be allocated between the bank and the Government, would you agree to the paper being issued by the bank?—Still I would rather pay the bank as an agent of the Government rather than allow it to share the profit.

2376. You would rather the bank acted as the Government's agent?—Yes.

2377. You further mention that you would provide for more Government control of the bank. If the bank is to act as agent of the Government where does the control by the Government of the bank come in?—It comes in because as a matter of fact even now I am afraid Government has practically given certain privilege of a central bank—State bank—to the Imperial Bank, without exercising sufficient control.

2378. What view do you take; the balances of Government are kept free of interest; you call that a function exercised by the bank?—That yields profit.

2379. Is it for the work that the bank does for the Government?—But it is paid for its services.

2380. Do you think that as it is, the Government control on the Imperial Bank is much too little?—Too little to justify a further extention of functions.

2381. As it is, it is much too little?—Yes.

2382. And you think even if the Government were to hand over to the Imperial Bank the note issue as the Government's agent, the control should be further increased?—Yes.

2383. Can you indicate the directions in which control should be increased?—I have generally indicated them. I agree with Keynes' memorandum before the Chamberlain Committee.

2384. That is for a purely State Bank?—Well, what I feel is that the Imperial Bank should be transformed into a State Bank.

2385. Even though the paper to be issued is the Government of India's?—Yes.

2386. It is to be issued by the State Bank as the Government's agent?—Yes.

2387. Do you think the change necessary for this purpose?—Well, you see, it is only for the time being till the people get accustomed to seeing it is a State Bank and not merely a bank of shareholders. The reason why I want the two accounts to be separate is to inspire public confidence. If after some time public confidence is regained and the constitution of the bank is such that it is really practically a State Bank it will not be necessary to keep separate accounts. I do not rule out the possibility of the Continental practice coming in afterwards.

2388. But for the immediate future you think that even for acting as agents the control of the Government over the bank ought to be greater?—Yes.

2389. Not, I infer from what you have said, not because the transfer of the paper issue necessitates any control but because you are dissatisfied with the present control of the Government on the present work of the bank?—Because otherwise the Imperial Bank is not fulfilling the functions of a State Bank and Government will have to consider the possibility of starting a State Bank sooner or later.

2390. Yes, if you said the Government control should be more if the Imperial Bank were changed into a State Bank I could understand; but you think the present control is not adequate. Even if the bank is to be employed as an agent of the Government the control should be increased?—Well, this transfer of the note issue is another step forward in the direction of making it a State Bank.

2391. Even as agents of the Government?—Yes.

2392. (*Chairman.*) I have some little doubt as to what you mean by the State Bank issuing notes as agents of the Government. Do you mean that the State Bank should have no voice at all in the monetary policy of the note issues or in the use of the reserves?—No, it will have discretion.

2393. Or do you mean, on the other hand, that the Imperial Bank should really control the policy of the note issues and the use of reserves, that it should be able to call upon the Government for as many notes as it thinks right, the only thing being that the pattern of the note should be a State Bank note instead of a Government note?—I mean there should be more Government control on the Imperial Bank, within the Board of the Imperial Bank—the Governors, for instance. The Board of the Imperial Bank would have perfect discretion regarding notes and reserves, only the note will be issued by the State and the accounts kept separate.

2394. In return for further Government control you are prepared to put the bank into actual control of the note issue, only retaining out of consideration for popular prejudices that the pattern of the note shall express it to be a Government note?—Not only this will satisfy popular prejudices but if the Issue Department's accounts are kept separate there is a certain amount of publicity.

2395. (*Sir Henry Strakosch.*) With regard to the question of reserves. You agreed that the size of the foreign currency and gold reserves has to be measured by the contraction of currency that would be possible without undue damage to the country. At what amount do you estimate that?—No, that is not the only point. The size of the reserve is also to be determined by the possibility of a panic in India when rupees and notes might be returned to Government and gold asked for.

2396. But there is a point beyond which you cannot contract the currency without grave injury to the country, a point where it would pay you better to allow the exchange to go rather than contract further.—But the contraction under my scheme will not be in the hands of Government. It will be in the hands of the public. If there is a panic the amount of contraction which will be made does not rest with any authority.

2397. But is there not a point beyond which contraction cannot go even if it is in the hands of the public?—Yes.

2398. I should like to know what in your view that point is; expressing it perhaps in a percentage of the total circulation, to what extent do you think one can contract currency?—I am afraid I cannot give you any details because in the first place one does not know how far this authority, this power of exchanging rupees for gold would actually be availed of. Probably in the beginning the reserve needed will be larger than afterwards because till people get accustomed to the idea that they can get gold in exchange for notes or rupees the possibility of a great rush on the Government or the bank to give gold for rupees and notes has to be taken into account.

2399. You cannot tell us what the amount should be?—I cannot.

2400. Now there is another question. Under the present system and under any gold exchange or sterling exchange system, India would have two kinds of token coins in circulation. You very aptly described them as notes printed one on silver and one on paper, the only distinguishing feature between the two classes of token being that one is printed on a more valuable material than the other; otherwise there is no difference. They are inconvertible internally and their foreign exchange value is secured by a foreign currency reserve?—They are now inconvertible internally but would be convertible under my scheme.

2401. Convertible into exportable gold?—Even gold that you use for ornament purposes.

2402. You intend to give gold internally?—Yes.

2403. Gold bars?—Yes.

2404. But not gold coin?—Yes.

2405. You would give gold for either rupee notes or rupee coin?—It comes to the same thing ultimately.

2406. Quite; my point is this. Is it necessary that one token should be convertible into the other token, my point being is it necessary to make the rupee note convertible into rupee coin?—For some time till people get accustomed; afterwards it may not be necessary to mint rupees at all.

2407. What I mean is this. The two tokens being for internal purposes absolutely equal what is the reason why the one token should be convertible into the other token?—Because of their relative popularity among different classes of people in different parts of the country.

2408. If you maintained the full legal tender right of the rupee coin, what would you say if the convertibility were taken away, because both are convertible into gold under your system. Is it therefore necessary to convert the note into rupee coin?—Yes, because in certain areas it is the rupee that will be wanted for circulation and gold will not circulate because I am giving only gold bars. Supposing in certain areas rupees are wanted for circulation, then the notes will be converted into rupees, notes not being popular.

2409.—But notes won't get there. If that area wants rupees the rupees will flow to that area and the notes will flow to the areas which want notes?—Still there must be facilities for converting one into the other.

2410. You regard it as necessary?—Yes, for some time.

2411. What will happen otherwise?—People will imagine all sorts of things; in the public mind there will be a good deal of misapprehension. People will think that Government is issuing notes which cannot be turned into metal when they want it.

2412. Would that be such a bad feature? Let us take the most extreme case, that people will become distrustful and they will begin hoarding rupee coin?—They will not hoard rupee coin, but gold. The demand for gold will be much greater.

2413. But gold is not a circulating medium?—Quite true, so there will be a scarcity of currency in the country.

2414. It might be supplied either by notes or rupee coins?—But for the time being it creates a great deal of misapprehension. Till people get used to the idea that they can have gold any time they want it, that the rupee and the note are quite the same, merely tokens for exchange into gold at any time they like. Habit is strong, the rupee has been in use for a long time and people have got used to the rupee.

2415. You will agree that the system at present in force here of one token being exchanged against another is a cumbersome one and an expensive one?—Yes.

2416. Because you have to keep very big reserves of rupee coin. And you would regard it as desirable that that should be at some time or another abolished?—Yes, eventually.

2417. And when do you think that could be done?—Well, we cannot say at present. It all depends upon banking facilities being extended in India. It also depends on the confidence that the currency policy of Government inspires and the education of the masses. All these are uncertain factors.

2418. Would not the fact that the Indian public would get a right which they never possessed before, namely, to demand gold for rupees, be sufficient to make them realise that the rupee coin and the rupee note are the same thing really?—Well it takes time for ignorant people to realise a thing like that.

2419. (*Sir Maneckji Dadabhoy.*) May I ask you one question in connection with the questions put by Sir Purshotamdas Thakurdas about the Imperial Bank? You said in answer to Sir Purshotamdas that you would like to see Government exercising greater control over the Imperial Bank. Will you just enumerate the instances in which you would like that control to be exercised?—On the management of the Governing Board there should be more Government nominees. For instance, Keynes suggested the Governor to be nominated by His Majesty the King; even the representative of the Government to be nominated by the Viceroy, and the Deputy Governor to be nominated by the Viceroy on the recommendation of the Governor. A Board of three is the authority under his scheme.

2420. Is there any other direction in which greater power could be exercised?—That practically does everything. No details are required when the whole management is in your hands.

2421. (*Sir Purshotamdas Thakurdas.*) Are you aware that the two managing Governors are nominated by the Viceroy?—But out of how many?

2422. There are two at present and both are nominated by the Viceroy; therefore it is practically what you want?—Excuse me, there is a good deal of difference between the two schemes.

2423. (*Sir Purshotamdas Thakurdas.*) I was only referring to what you mentioned specifically in reply to Sir Maneckji's question. Well, we will drop the matter. You have your views on record.

2424. (*Sir Henry Strakosch.*) With regard to the control of the currency of the future, your ideal would be a State Bank and you agree with Mr. Keynes' proposals in 1914 advocating a State Bank. You are no doubt aware that a rather drastic evolution of thought has occurred since 1914, and that both the Brussels and Genoa Conferences have affirmed that the most desirable system of currency control is through a private Central Bank free from all political control?—Yes.

2425. And the events since 1918 have, I think, given very convincing demonstration how desirable it is that a Central Bank should not be controlled by Government. Would you nevertheless say that in India the Currency should be controlled by a State Bank under the control of Government?—All that the recent experience has shown is that a Central State Bank should not be absolutely at the mercy of political forces. The shareholders also should have a share in the control. The point of my argument only is that when certain public functions are expected to be performed by a State Bank

the degree of control ought to be greater than exists at present.

2426. But Brussels and Genoa recommended that the Central Bank managing the currency should be entirely free from Government or political control?—There is a difference between the countries with which the Brussels conference dealt and India because of the vital difference that in other countries a private Bank takes charge of the interests of the nation. It has not on it the representatives of foreign capitalists nor is it under the management of foreigners. In India Government is the only agency through which the interests of the country are likely to be urged and so there must be greater control by the Government.

2427. You don't think that India is capable without Government control to manage its own affairs soundly?—Our own affairs are not in our hands. To a great degree they are in other people's hands.

2428. What do you mean by other people's hands?—Even in the Imperial Bank the control is mostly European and the only way in which the interests of the country could be placed before the interests of the Board is to have effective Government control.

2429. Oh, I see. But the Government is also partly European?—Partly it is no doubt but we hope it will become more and more Indian; at any rate an agitation can be started against the Government.

2430. That is the only reason why you think it should be a State Bank and not a private institution? Even when Governments are national, the Government could bungle at times?—On the whole a national Government will control the work of a State Bank far more in the interests of the people.

2431. Has that been the experience of recent years?—Governments went mad in time of war. That is hardly a normal experience. The Governments were as a matter of fact compelled in the interests of war to put pressure upon State Banks.

2432. But the greatest amount of mischief was done not during but after the war?—But "after the war" does not exclude the effects of war; "after the war" means also the period in which people were trying to make up for the wastage of war. That is not a normal period to take into account. In time of war you might declare that a Bank is closed. You might declare a moratorium.

2433. But you have no doubt heard that some Governments expending more money for public purposes than they can really afford and that they would not mind a bit of inflation to do it?—But that stage is not likely to arrive in India; the democratic force is not going to be so strong in India in the near future.

2434. (*Chairman*.) I understand the conclusion at which you arrive from Sir Henry Strakosch's questions is that the introduction of the system which you advocate, under which gold bars would be given freely against notes or rupees, would enable you, after the lapse of a period which you cannot define for the establishment of complete confidence in the convertibility of the rupee and the rupee note into gold, to abolish the privilege of converting the note into the silver rupee. It would be a system which would naturally lead to that consequence?—Yes.

2435. Supposing it were desirable that at some time the right of unlimited legal tender attached to the rupee should also cease, would your system also lead eventually to a state of affairs in which that would be possible?—Yes.

2436. In fact one might look upon the attainment of those two objects as probably arriving at about the same time, that is, the non-convertibility of the note into the silver rupee and the limited legal tender of the rupee?—Probably.

2437. I understand you to express an opinion throughout your memorandum adverse to the introduction of a gold circulation; that is, indeed, the basis of your views?—Yes.

2438. I want to ask you if you will deal just quite briefly with one or two of the principal contentions that have been advanced in favour of a gold circulation. I think I can conveniently do so by picking out a few points from the Report of the Royal Commission of 1914; they are given in a list at page 16. I need not trouble you with them all but only with one or two of the most important. What is your view as to the contention that a gold currency is a necessary step towards what may be regarded as the ideal currency in which paper is backed by gold in reserve? Do you consider that that is a necessary step towards such an ideal currency?—No, I do not.

2439. Do you think that it would advance the time when such an ideal currency would be introduced?—I don't think so.

2440. Are you basing your opinion upon the rather obvious suggestion that people who are once used to a gold currency are often very loth to part with it in favour of any less substantial medium?—Yes. That danger is particularly great in India.

2441. What makes you say that?—Because of the fondness of the people for precious metals.

2442. That is evidenced by the unaltered habits of the people throughout the centuries?—Yes.

2443. The only other argument here of sufficient importance for me to trouble you with is "that a large amount of gold in circulation is a strong, and, in the view of some people, the only adequate support for exchange." Do you attach any importance to that contention?—As against the present system; but not against the system that I advocate.

2444. You would rather have gold in circulation than no gold available at all?—Yes.

2445. You would not rather have it than a central gold reserve?—No.

2446. I understand you are inclined to agree that only a very small percentage of gold in active circulation can be looked upon as available as a reserve for use in times of pressure?—Yes.

2447. (*Sir Purshotamdas Thakurdas*.) I take it I can ask his opinion regarding notes of lower denomination than ten rupees later on.

2448. (*Chairman*.) It escaped my memory. Let us ask Mr. Chablani now. What is your opinion as to the advisability or the reverse of a policy of issuing notes of lower denomination than Rs. 5?—I am against it for the simple reason that a small note is practically inconvertible.

2449. I remember that phrase in your memorandum which caused me some difficulty at the time. What is the reason for the practical inconvertibility of the small note?—Supposing I have got a few rupees in my pocket I will not take the trouble of going and getting it encashed. That is the difficulty. The small notes get into circulation and people do not like to take the trouble of going to the Treasury or Bank and getting them encashed.

2450. They could encash it if they wanted to?—They could; but with a small note of say a rupee you don't take the necessary trouble to get it encashed.

2451. Why should anybody mind that? It is not a desirable thing for people to encash their notes?—Take a place far remote from a railway station. If more notes are put into circulation than are needed by the public for the purpose of transactions they would not be presented to the Government Treasury offices for encashment because of the difficulty of going to the next Currency office or even to a Post Office. That same complaint occurred in Scotland. The point was argued in 1765, if I mistake not. I find a reference made to that point in Nicholson's Principles, volume 2 and also in Nicholson's War Finance; that is the main reason why in most countries you find that in relation to token coins the denomination of notes is large.

2452. I am afraid I have not grasped the point yet. What is the point put in Mr. Nicholson's book, for instance?—He refers to the Act of 1765 as marking the recognition in Scotland of two great principles for the regulation of note issue, one of which is "that if notes are small there may be an excess of issues

in spite of the fact that they are nominally convertible."

2453. "There may be an excess of issues"?—Yes.

2454. What does that mean?—Supposing Government puts more issues, prints more notes than you require, the ordinary effect would be a tendency to a rise of prices; general convertibility is the only safeguard; but if you have these small notes you prevent them from being encashed.

2455. I understand you really look at it from the point of view of the danger of inflation, that relying on the difficulty of return of the small note, the Government might be tempted to make an over-issue. Is not this adequately checked by the provisions as to the reserve?—No.

2456. Why is that not so?—Because Government's reserve policy is only to provide a sufficient reserve for encashing notes which they expect would be presented to them. Government could safely rely upon such notes not being presented to them.

2457. (*Chairman.*) I appreciate your argument and I recognise it in its present form. Are there any supplementary questions on this point?

2458. (*Sir Purshotamdas Thakurdas.*) You mention that you are not in favour of issuing notes of lower denominations than Rs. 10?—Yes.

2459. Would you discontinue five rupee notes?—Yes.

2460. That means up to ten rupees you would say that the people must carry their money in coin?—Yes.

2461. Is not the five rupee note sufficiently popular to make it very difficult for Government to discontinue it?—It is not a question of popularity; it is a question of adequate safeguard against the possibility of issuing in excess of public requirements. That could only be safeguarded by making convertibility easy.

2462. Do you think you could urge that against the five rupee note? I could understand it in the case of the one rupee note.—To a much less degree perhaps in the case of the five rupee note than the one rupee note.

2463. More especially your opinion is concentrated against the one rupee note being started again than against the five rupee note?—Yes.

2464. Regarding gold currency, the argument that you put forward in your reply would not appeal to the masses?—Nothing would appeal to the masses more than the possibility of getting gold from Government easily.

2465. If there is going to be a change, do you not think there is more liklihood of the gold coin being understood by the masses better?—No.

2466. (*Chairman.*) Mr. Chablani is now referring to his answers relating to his proposal for giving gold in bars.

2467. (*Sir Purshotamdas Thakurdas.*) I was referring to the coin? How will the gold bar be appreciated or nnderstood by the smaller man in the mofussil districts?—Because the smaller bullion dealer will get bars and give him gold more easily.

2468. Is there at present any difficulty in getting bars?—The smaller dealer does not deal with the Government and return notes or rupees for gold.

2469. It is through the smaller dealer that you expect the people to appreciate that gold has come from the Government Treasury and not from the wholesale dealer in Calcutta or Bombay?—Yes, but I am not arguing this point as the sole or major reason for the step I propose.

2470. I am trying to find out from you whether gold coin if it was issued would not be better appreciated by the masses?—It would have the same effect so far as masses are concerned. I do not admit it will have greater effect.

2471. Which; the coin?—Yes, it will not have greater effect.

2472. The bullion which is available to the middleman would not be available?—Most of the statistics seem to show that the sovereigns issued before the war were really required for the purposes of hoarding or ornaments for which purposes the gold bar is equally useful.

2473. You mean the coins were never used as coins?—Not never, but less used as coins.

2474. And therefore as long as gold is available, it does not matter?—Yes.

2475. For that purpose supposing Government did not give gold for internal circulation and gold import was freely allowed, would it serve the same purpose?—It would not serve the same purpose from the point of view of our currency system.

2476. Therefore, apart from the currency system point of view as far as the masses are concerned, there is no difference to them whether the Government gives gold or gold is available by private import?—But the masses are concerned in the rise and fall of the prices. They are concerned in the stability of the purchasing power of money.

2477. I have no doubt about that. What I say is that this scheme which you advocate will not make any difference to the masses as far as the currency system is concerned.—It does make a difference because in this case currency is withdrawable. Rupees can be withdrawn from circulation internally.

2478. It will not be in this case?—When the public gives rupees to Government and gets gold, rupees are withdrawn from circulation; there is automatic process of contraction.

2479. The same would happen if the coin was there instead of bullion.—How will that contract the currency? How can currency be contracted by the sovereign if it remains in circulation?

2480. Currency can be contracted when the people return it to the Treasury as in the case of your gold bullion?—When they get in return the gold coin?

2481. It is a question now of gold coin or gold bullion. You advocate that Government should give out not gold coin but gold bullion. I am only trying to look at it from the point of view of which of the two would appeal better to the masses. You say either would appeal to the masses because the masses will realise that they get the gold bullion from the Government treasury; it does not matter to the masses at all whether they get it from a Government Treasury or the wholesale dealer in Calcutta or Bombay; as far as the public benefit, from the sentimental point of view, is concerned it is bound to appeal less to the public?—I do not say it would appeal less; I would put it on the same footing.

2482. Even though you admit that the public would not go and fetch the gold—I mean when I say public the small man—from the Government Treasury? You said in reply I think to a question that you would have to fix a certain limit. You could not buy one tola from the Government Treasury. You would have to fix a fairly high limit. I think you mentioned something like 1,500 rupees?—I left it as matter of detail. I understood in England it was 400 ounces.

2483. What would you allow as the safe minimum?—It is a matter of detail.

2484. It would have to be in multiples of rupees 100?—Of course.

2485. Do you think a large number of people would go and get this bullion?—You will have to create the machinery.

2486. Therefore it will have to be through an intermediary?—Of course.

2487. Instead of as at present?—The facilities offered by Government will be greater than what the trade provides at the present moment.

2488. You realise that this scheme practically means control of the gold bullion in the hands of Government?—I would not put it like that.

2489. When Government import gold and give it out at a certain rate?—It rather means control by gold of the currency.

2490. And practically no trade in import of gold by any private agency?—Why, look at what is happening in England.

2491. I am not questioning whether it is right or wrong, I am only mentioning it as a possible point of view?—What I submit is that you are looking at the wrong end. It will rather be control by gold of the amount of currency.

2492. There are large private importers of bullion at present?—They will continue.

2493. Will they?—Yes.

2494. Even though you can get gold from the Government at a fixed rate?—But the Government will buy from them.

2495. (*Sir Henry Strakosch.*) Is that likely?—Why not? The dealer in India will no doubt want to make the profit which Government might easily make by importing gold themselves?—Of course the dealer will have to go down to that level: when Government imports it pays something.

2496. How then will it contract currency?—The contraction will be only when the public present rupees to Government and get gold from Government.

2497. But previous to that when the Government has bought gold in India it will have paid rupees?—What happens is this. Expansion of currency would be by Government purchasing and the contraction of currency would be by Government selling gold in return for rupees.

2498. One cancels out the other?—Of course that is what is wanted. We want an automatic process of contraction and expansion.

2499. So that the Government would only buy gold in India when it wants to expand currency and it is at the mercy of the people so far as the contraction is concerned?—Supposing people demand gold from Government, Government will have to buy again from some people. The two processes continue and sometimes cancel out. Ordinarily the two may cancel out. When expanding currency Government will buy more gold and give rupees: in times of contraction Government will sell more gold and receive rupees.

2500. But it is true that the power of Government to influence the volume of currency is only in the direction of expanding and not contracting. Therefore it is at the mercy of the popular demand for gold?—Yes. The popular demand would always be there, when gold appreciates relatively to the currency then people will go to Government and get in a cheaper way gold from Government.

2501. (*Chairman.*) Gold is part of the Government's or the Bank's reserves. Supposing there is a period of great anxiety and all the holders of silver hoards feel that they would rather have their hoards in gold, what is going to happen to the currency system then?—I quite see that there is a possibility, but such possibilities do arise everywhere.

2502. To make your system absolutely certain to work in a practical world, have you not got to confine the gold given out against rupees and notes to gold for the purposes of export only?—No; for the simple reason that we do not want to leave the value of currency at the mercy of Government. Supposing Government issues more than what is needed in the busy season and afterwards currency requires to be withdrawn, how will there be any withdrawal?

2503. If there is a fixed percentage for the reserve and the gold is withdrawn from the reserve for export, then the currency must automatically be contracted?—Gold will be required for export only in times of weak exchange and there may be occasions when the exchange is all right and yet the country may not require so much currency.

2504. You are not impressed by the danger of, say, silver hoards being tendered for gold?—I am not impressed, but the danger will be greater, the greater the nervousness. The only way to meet that is to be bold. It will be difficult for any Government to meet the demands for encashment of all notes, if people get mad and make a rush. The only right policy in times of panic is the policy always adopted of paying out freely.

2505. It occurs to me that here you will be rendering your system liable to a danger which might materialise in something very much less than a panic but simply an appreciation on the part of the holders of silver hoards that there was an opportunity open to them?—If there is a great demand for gold, the rupee will be withdrawn from circulation and since the rupee and the notes are the only circulation in the country, that will create a scarcity of the currency, and very soon, there will be a further demand for currency as soon as gold does not circulate. What circulates is only notes and rupees.

2506. I am considering a currency circulation that is really quite unchanged. It appears to me not an impossible eventuality that, in perfectly normal times when trade is running quite easily, the holders of big hoards might suddenly awaken to the fact that they can get gold for their silver if they want it?—I should rather think that, once it is understood that gold can be had at any time it is wanted by the public, people will make no such heavy demand.

2507. I should imagine that once they had gone round and got the gold, the mischief might be done?—I say we must accumulate sufficient gold for the purpose of meeting this; that I have already said; in the period of transition with exchange between 1s. 6d. and 1s. 4d. Government has a nice opportunity for accumulating gold.

2508. You would not contemplate embarking upon an undertaking to give gold bars against rupees and rupee notes without taking whatever precautions were necessary as regards the establishment of an adequate reserve against that purpose?—Certainly. The time will have to be left to the Government. You must leave it to the Executive.

2509. (*Sir Alexander Murray.*) You deal with the question of expansion in the second last paragraph on page 98 of the Volume of Appendices. Do you mean the Commission to infer from your statement there that currency should only be expanded in accordance with the growth of trade over a year and not seasonal expansion?—If there is seasonal expansion there should be seasonal contraction too.

2510. You do not mean that Government should only expand the currency based on a percentage of say the preceding year's circulation?—No, I do not mean that at all. All that I mean is under the present system while you have an expansion seasonally, when there is a slack season there is no automatic process of contraction; so that, once the currency is thrown into circulation it remains there. That is the defect of the system.

2511. How do you propose to overcome it?—The convertible rupee; as soon as the slack season goes and people want gold, it will be presented to Government and gold bars taken for ornaments or trade, and deflation effected.

2512. Expansion will take place during the busy season?—And in the slack season that will be a return.

2513. If people want gold?—Yes.

2514. Not if they don't want it?—But they *will* want gold if there is too much currency for the slack season, for then the currency will depreciate in terms of gold, and people will find it more profitable to ask for gold from Government at a particular price.

2515. (*Chairman.*) We have had very full assistance from you, Mr. Chablani, for which, on behalf of the Commission, I thank you.

(*The witness withdrew.*)

EIGHT DAY.

Thursday, December 3rd, 1925.

PRESENT :

THE RIGHT HON. EDWARD HILTON YOUNG, P.C., D.S.O., D.S.C., M.P. (*Chairman*).

SIR RAJENDRANATH MOOKERJEE, K.C.I.E, K.C.V.O.
SIR NORCOT HASTINGS YEELES WARREN, K.C.I.E.
SIR REGINALD MANT, K.C.I.E., C.S.I.
SIR MANECKJI BYRAMJI DADABHOY, K.C.I.E.
SIR HENRY STRAKOSCH, K.B.E.
SIR ALEXANDER ROBERTSON MURRAY, C.B.E.
SIR PURSHOTAMDAS THAKURDAS, C.I.E., M.B.E., M.L.A.
PROFESSOR JAHANGIR COOVERJEE COYAJEE.
MR. WILLIAM EDWARD PRESTON.

MR. A. V. V. AIYAR, C.I.E. } (*Secretaries*).
MR. G. H. BAXTER }

Mr. B. G. BHATNAGAR, called and examined.

2516. (*Chairman.*) Mr. Bhatnagar, you are engaged in the Economics Department of the University of Allahabad?—Yes, Sir.

2517. Since when, may I ask, have you been there?—Since 1918-19.

2518. And before that?—I was a scholar in the year 1918-19 after finishing my studies. My teaching career began in 1920.

2519. You have furnished us with a very full memorandum,* which the Commission has read with interest, and I will, if I may, ask you a few questions in order to bring out those points on which you lay particular emphasis and to elucidate any matters which still seem to require elucidation. You refer to the unchangeable habits and strength of prejudice in currency matters of the uneducated population of India. There is also, is there not, a special public on currency matters, small but highly instructed, in the substantial number of small bullion brokers, money brokers, and others engaged in small bullion and monetary transactions?—Yes.

2520. And this, I imagine, is a very alert class, is it not?—In India we find it mostly in big cities, especially in Bombay and Calcutta.

2521. But that class is very rapidly alive to any changes and possibilities in the currency situation?—Of course, it must be.

2522. So that, although the general population may not be well instructed, yet any openings which there are for taking advantage of features of a currency system are likely to be rapidly communicated to the public by the brokers and others who may profit by them?—Yes, it is true that the information is likely to be carried to the public but it may not be exactly in the same form as may be beneficial for the public. The main object of the broker will be to take as much advantage as possible out of any change that may be introduced in the currency. What I mean here is this that the broker class is not likely to look at the question from the point of view of the advantage of the general public.

2523. On the other hand, I understand it is your opinion that there are certain habits as regards currency which are so inveterate in the uneducated Indian public as to be almost unchangeable except by a very slow process of education?—Yes, that is my belief. It is not only true, I think, of India, but we find it in other countries as well.

2524. And of those habits, you mention in particular the taste for gold and the reliance upon the silver rupee?—As far as I remember I mention two different and definite things—the taste for gold for ornamental purposes and a preference for the rupee for currency purposes.

* Appendix 14.

2525. In order to bring our discussion to a point, will you tell me a matter upon which your memorandum leaves me in some little doubt, viz., what do you consider to be the ideal system of currency for India? I do not mean an ideal if we were starting with a clean slate, as you say in your memorandum but the ideal system in the sense of the best system to which we ought to work?—Our future ideal, please, or the thing that may be possible to-day?

2526. No, the ultimate object which we ought to set before ourselves?—As I have already pointed out in the memorandum, our future ideal should be a gold standard, but gold not in active circulation—paper money in active circulation, convertible into gold, and this brought about not by any legal compulsion but by a change in the habits of the people and the development of banking and investing habits in the people. That is what has come to be the practice in England and other advanced countries.

2527. Under that system would gold still be available against notes for internal circulation?—Yes.

2528. Or would it have ceased to be so?—It will be available. It will not be forbidden by law, but because people will have realised the advantages of paper currency and the use of credit they will naturally take as little of it as possible.

2529. Under those circumstances I imagine you would say that it was almost a matter of indifference as to whether it was made no longer legally available or whether it was left legally available?—If the law were to lay down that gold would not be legally available, then it will have a psychological effect upon people and that will create a desire in their minds to have it.

2530. But we are assuming that the public have already learned to trust and use the note and not to require gold for circulation?—What I wish to emphasise is this, that the moment the law says that gold will not be available, that very fact may create an idea in the minds of people to ask for gold, although under ordinary circumstances they may not care to have it.

2531. Is that the experience of other countries which have worked to an exchange standard, that it is necessary to make gold still in form available for internal use, or have not other countries found that that is unnecessary when the public is once used to some form of paper circulation?—May I know one thing here? By saying that gold will not be available for the paper currency, am I to understand that paper becomes inconvertible?

2532. Except in some form of foreign exchange, either gold for export or foreign currencies?—So far as internal circulation is concerned, we may take it as inconvertible paper money? Personally, I do not know of any country where the system has been tried—paper unconvertible for internal circulation.

2533. Then you would not be prepared to express any opinion as to what the experience of other countries has been?—No, I am sorry I couldn't.

2534. We have taken what you consider to be the practical ideal. Now will you tell us by what steps you would work towards that ideal?—I have indicated also in the memorandum that first of all I would have the gold exchange standard back for some time, as we had it before the War. And if we have gold enough to make our paper currency convertible into gold and to have a 50 per cent. reserve in gold, I would do it immediately.

2535. Then you would do what immediately?—I would make paper currency convertible into gold immediately. But because we have not sufficient gold at this time I would again adopt the gold exchange standard and try to build up the gold reserve up to that point where we may be able to make our paper currency convertible into gold. When that was done, then I would declare rupees to be subsidiary coin.

2536. We may take your answer just as far as that on the two main steps: Your first step would be the restoration of the gold exchange standard as it was before the War?—Yes, provided I am correct in my calculation that gold is not sufficient to make the paper currency convertible just at present.

2537. What do you mean by that precisely? That would mean in practice the restoration not so much of the gold exchange standard as the sterling exchange standard, would it not, if we are to restore the pre-war system?—We may have a modification up to that extent; instead of having a sterling exchange standard, I would rather go in for gold.

2538. There would be certain modifications then, one of which would be the establishment of a gold exchange standard instead of sterling?—I think that was recommended by the Babington-Smith Committee also.

2539. Will you tell us why you prefer the gold exchange standard to the sterling exchange standard?—I recognise the fact that India has a very large trade with the British Isles, and that perhaps is one of the main reasons why generally it is preferred to have a sterling exchange standard instead of a gold exchange standard. That is one of the reasons generally given. But gold being an international currency, as they call it, I would rather have a gold exchange standard.

2540. And there will be no difficulty in exchange between England and India?—Yes, because sterling is now touching par with gold.

2541. What methods would you adopt, in particular as regards the constitution of the reserve and the nature of the securities and gold to be held in reserve, in order to establish the fact that yours was a gold exchange standard and not a sterling exchange standard?—Am I to answer this question with reference to the gold standard reserve or the paper currency reserve?

2542. We will consider it as regards the gold standard reserve?—At present we have practically the whole of the reserve in the securities of the British Isles. I cannot be definite about that statement, but this much I am certain that practically the whole of it is in the form of securities. I have no objection to having the gold standard reserve in the form of securities largely, but what I would insist upon is that the management, the selection of the securities should be left with the Government of India.

2543. The investment business should be done by the Government of India?—Yes.

2544. Instead of by the Secretary of State or on his behalf?—Yes.

2545. That would be one alteration. Do you propose that any part of your exchange standard reserve should be held in securities other than sterling?—We may divide it according to the share of the trade with India of different countries. That seems to be the only practical basis on which you can have it.

2546. Would you divide it in accordance with the actual share of the material trade done with the various countries, or would you divide it in accordance with the proportion of India's trade settled in the currencies of those countries?—First of all I would go in for the best securities that are easily realisable. That would be my main idea.

2547. Let me make my question clear to you. Although a substantial portion of India's trade is done directly with the United Kingdom, a very much bigger part of it is settled in sterling, as much as 90 per cent. Would not you consider that the proportion in which India's trade is settled in the currencies of various countries is that which should be taken into account in considering where you should hold your reserve?—That is an argument in favour of holding our reserve largely in sterling securities, but that presupposes that London will continue to be the clearing house and there is not much chance of London leaving that position.

2548. Would the securities which you hold in other countries, say in dollars or in guilders and so on, be of any practical utility in supporting the exchanges, or would they only be a theoretical factor in the gold exchange standard?—We might have some securities in the United States of America.

2549. What use would you make of them?—To sell them as in the case of other securities when we require gold.

2550. Would you not, as soon as you sold them, convert the proceeds into sterling?—Yes, because we have to make our payments in sterling.

2551. In that way you are settling your balance of trade?—Looked at from that point of view, it seems to me that we should have the greater part of our securities in sterling securities.

2552. Now as to gold, what provision would you make as to the right to obtain gold against internal currencies under the first step of a gold exchange standard?—That is when we have made our notes convertible into gold.

2553. Notes would be convertible into gold?—Yes.

2554. For any purpose freely?—Yes.

2555. And rupees?—The moment we have made our notes convertible in gold the rupee will have to acquire the position of a subsidiary coin.

2556. Would you immediately, upon the introduction of the gold exchange standard, make the rupee a subsidiary coin?—Not immediately on the introduction.

2557. At the first stage, what would your provision be as regards the obtaining of gold for rupees?—Just as we had before the war, only for meeting foreign liabilities.

2558. Before the war I understand the only provision as to giving gold against rupees was that the Government might do it if it liked. Would you make it a legal obligation?—Yes.

2559. But only, as you tell us, for foreign export?—Yes.

2560. What provision would be enforced in order to ensure that the gold was exported? Would that be a matter of difficulty?—In the past we generally used to allow gold when anybody wanted not more than £5,000 or £10,000.

2561. Some minimum amount, shall we say, of bars of bullion only?—Yes.

2562. Would you suggest that the minimum amount should be either in currency or in bullion bars or in bullion only?—I think it will come to the same thing.

2563. You will not give it altogether in sovereigns or in any other form of gold currency?—If we have a part of the reserve in that form we might do it.

2564. You think it would be an adequate insurance that the gold was only taken for export and that only a minimum amount should be given?—I do not mean to say that a minimum amount should be given and not more than that.

2565. Not less than that?—Not less than that should be given because people for internal purposes require small quantities of gold.

2566. We understand your object is that this gold should be given for export only?—Yes.

2567. The next question is, do you think that it would be an adequate insurance that the gold was taken for export only if the only provision to that end was that not less than a certain amount, say £2,000 worth of gold, were given against notes or rupees?—It would not be sufficient. People might take that for internal circulation.

2568. That might result, might it not, in people taking gold to substitute for silver in hoards?—Yes.

2569. So that you would require some active provision to ensure that the gold was exported and not sent into internal circulation?—Yes.

2570. That is the first step towards the restoration of a reformed pre-war system?—Yes.

2571. It is said that one of the defects of the pre-war system was that there was no provision for the automatic contraction of the currency in a bad year when exchange was falling. Do you agree that that was a defect of the pre-war system?—I think it was.

2572. How do you propose to remedy that?—So long as we have the gold exchange standard system, it will not be possible to remedy it completely, but when we have got the other system where gold will be introduced into active circulation, then it will have adjusted itself.

2573. To follow out that question, have you considered the possibility of the transfer of the control of the note issue and of the paper currency reserve consequentially from the Government to the Imperial Bank of India?—But I think the Imperial Bank will be acting as the agent of the Government.

2574. I want your views. There are two possibilities under the proposal. One is that the note issue might be transferred to the Imperial Bank only as managers for the Government; the other is that the note issue and the reserves against the note issue might be transferred to the Imperial Bank of India to control, just in the same way as the note issue and its reserves are controlled by the central bank of issue in many other countries, not as agents but as principals. Will you tell me what your opinion is as to the relative merits of these proposals, or the third alternative of leaving things as they are?—I am in favour of the first proposal of utilising the Imperial Bank as agent; and my reason for that is that if we make the Imperial Bank the principal, then, although with the Government having some control over the general policy of the Bank, yet it has got a large number of shareholders, and it does not seem to be desirable to entrust the whole management of the currency reserves and the management of the note issue to it. If it were to act as agent only, then it will be doing things under the direct supervision and according to the directions of the Government.

2575. Under that arrangement, the reserves, as I understand it, would remain under the direct control of the Government of India?—Yes, of the Government of India.

2576. It may be said that there is an advantage in combining the control of the banking reserves of the country and the currency and exchange reserves of the country in one hand in order to support and facilitate the operations of the money market in the country, and that is an argument in favour of the transfer of control to the bank of issue. What is your opinion upon that?—Could we not secure the same end simply by transferring the management and keeping the control in the hands of the Government of India?

2577. Could it be said that you would secure that end as long as the policy for the control of the banking reserves, on the one hand, and the paper and currency exchange reserves on the other hand, were not in the same hands?—If the active management is passed to the bank, the bank could bring its influence on the Government of India. Suppose at a particular moment the bank finds it necessary to have a larger issue of notes. Then if the management of the paper currency is in the hands of the bank it will have a very large influence with the Government of India, and the Government of India will allow the bank just at that moment to issue a larger number of notes, and in that way the bank will be in a position to meet the demands of the public.

2578. If the reserves are maintained still under the control of the Government, what is your opinion upon the advisability or otherwise of combining the paper currency reserve and the exchange reserve into a single reserve?—That will clash with the system that I am recommending.

2579. How so?—In practice, in the past, we have been utilising the gold in the two reserves for meeting adverse balances—the demand for reverse councils. But if we are to mix them up now, then we will never be able to know when we had sufficient gold for making our paper currency convertible.

2580. Do not the resources of each of the reserves at the present time serve a double purpose, the resources of the exchange reserve serving the purpose of maintaining the internal convertibility of the note currency to some extent, and the resources of the paper currency reserve serving the purpose of supporting the external value of the Indian currency to some extent?—Yes. Gold in the paper currency reserve has been used and has served as a background to tho gold standard reserve. But I do not know how the reserve in the gold standard reserve helps internal circulation. Certainly it did in the past when we had part of it in rupees. Now we have practically the whole of it in sterling securities. That depends upon the position of the reserve.

2581. The final point to which I wish to draw attention on the question of the reserves is:—Is it not the case that, supposing you were to combine these two reserves into one, you would then have an arrangement which would secure an automatic contraction of the currency when such a contraction was required in a time of bad trade and weak exchange?—The point is not clear to me, how the combination will bring about a contraction of internal currency.

2582. (*Chairman.*) That is the first stage in the introduction of a reformed exchange standard system. I will take next your proposals for the introduction of a gold currency, as I understand it, and at this point it would be convenient to have any subsidiary questions upon the matters which we have already covered.

2583. (*Professor Coyajee.*) Mr. Bhatnagar, you speak of the difficulties of contracting the currency when that is desirable, under the former currency system of India.—Yes.

2584. And you think that the difficulties led to a certain over-issue of rupees before the war, since the currency could not be contracted when it was essential?—We cannot say anything definitely whether there was over-issue or not. But certainly if in a country currency needs expansion, as it has been expanding since the beginning of the century well up to 1916-17, it is certain that at certain times when the trade was dull it should have needed contraction, and the system as it was had no provision whatever for a contraction?

2585. Therefore, it was natural that certain over-expansion should have taken place?—Yes, it should have taken place, and it is, to some extent, supported by the trend of general prices in India.

2586. In a word, the working of the gold exchange standard led to an artificial rise of prices to a certain extent?—May have; I could not say definitely that it did.

2587. Now what is that due to, to any inherent defect of the gold exchange standard or to the methods under which it was worked actually; that is absence of a contraction at the proper time, was it due to any inherent defect of the gold exchange standard?—Not to any inherent defect in the gold exchange standard as conceived by the original thinkers of that. That came about simply because under the peculiar conditions in India we had no cheap internal currency like paper currency or leather currency. We had

to have rupees which could not be melted with as great an ease as paper currency.

2588. Suppose there had been a statutory obligation to sell reverse council bills against the gold standard reserve at the proper time and to lock up the rupees; then there could be no talk of the difficulty of contraction?—Am I to understand at the time of a dull trade?

2589. At the time of adverse balance of trade, yes. There was a statutory obligation on the authorities to sell reverse councils against gold standard reserve and to lock up the rupees?—That device could have been utilised under ordinary circumstances as well to bring about contraction. I perfectly agree.

2590. Now I will give you one or two views given by another witness before this Commission. You mention that there was an idea that there had been an over-issue of rupees under the former currency system. Now here is what one witness says: "The exchange standard before the war did not give us stability of prices; but it is wrong to attribute this defect to the absence of a larger volume of circulation or inconvertibilty of rupees and notes into gold. The real cause of the increase of currency was the rising balance of trade in India's favour which could not be liquidated in any other way." Would you agree with that?—We cannot explain as a matter of fact the phenomenon of rise in prices in India. Generally, those who have written about this, they have agreed that the over-issue of rupees contributed to a certain extent; the prices in foreign countries must have also reacted on the prices in India to a certain extent and there is no doubt that the export trade of India also developed very largely during this period and it succeeded in getting very good prices from continental countries and that again might have contributed something to the rise of prices in India. Now to assign what particular influence or what percentage of influence each factor of these 3 or 4 factors at work had seems very difficult to me.

2591. I would add another factor from the same witness: "The commercial contract of India with the world had since 1900 become much closer than before and the presumption is that the lag of Indian price level behind the level of world prices had to be made up during that period"?—We have not been able to make it up even at this time.

2592. (*Chairman.*) Could you repeat the last answer?—I said that the lag of Indian prices is still continuing; our price level is lower than the price level in foreign countries.

2593. (*Professor Coyajee.*) Consequently you do not agree with those who would attribute the pre-war rise of prices solely to the weaknesses of the gold exchange standard system?—No, not exclusively to the gold exchange standard system.

2594. (*Chairman.*) What do you mean by saying that the level of Indian prices is lower? What figure are you taking?—The index numbers of prices, as supplied by the Director of Statistics, Calcutta. It was on this that I calculated.

2595. How much lower is the last general index?—I have got figures up to 1923.

2596. (*Chairman.*) We have more recent figures than those.

2597. (*Mr. Preston.*) With regard to the answers you have given to the Chairman on the subject of contraction, in order that there may be no misunderstanding as regards the part which the gold standard reserve did play in the old gold exchange standard, might I just refer to some actual figures during the exchange decline in the years 1907-08 as the result of the American crisis? The total at the end of 1907 was 17¼ million sterling. Thirteen millions odd was held in England and 4 millions in India. The 4 millions which were held in India in that year represented what, as you stated in a few of your answers, was due to an arrangement which was entered into whereby we kept a reserve of actual rupees in India. Now in 1908, in order to support the sterling exchange rate, reverse councils on the balances in London were sold in India to the extent of just over 8 million sterling. Then the composition at the end of 1908 of that standard reserve was as follows. The balances in London were reduced to 5 million sterling and the balances in India went up to the equivalent of 13 million sterling. So you will see that practically speaking the balances during 1908 were just transposed as from London to India. The result was that 8 million or the equivalent of that 8 million sterling was withdrawn from circulation and held up as the Indian portion of the gold standard reserve and that contraction was necessary in order to turn the scale in the exchange value?—Yes, Sir, I agree.

2598. So far as your memory goes?—I am quite aware of the facts.

2599. I will take the chain a little further. As a result when the market had turned round and the demand again set in for currency by the end of 1911 the total balances held in India had been reduced to inside 2 millions?—From 13 to 2 millions.

2600. Yes from 13 to 2 millions; so that the application as then put in practice with regard to our gold standard reserve produced an efficient and automatic contraction of currency. Do you agree to that?—No I do not agree to the last part of that.

2601. How would you modify it?—If we had in our currency system a provision that during the slack season any individual could secure reverse councils. Supposing during the busy season we had succeeded in sending 4 crores of rupees in active circulation and then we did not want them during the slack season, if during the slack season we could secure reverse councils then these 4 crores would be locked up in the gold exchange standard reserve. Unless we had this provision for giving reverse councils to all sorts of people whether they wanted it for meeting foreign obligations or not we could not say that our system was automatic.

2602. May I point out that where your difficulty would come in is this, that in the slack season through the currency reserve you can get gold for export which is the first line of reserve. You could convert your notes or rupees into gold provided that you export the gold?—Yes we could do that.

2603. But is that not what you told us was part of the old Gold Standard system?—We could secure reverse councils for meeting foreign obligations, and that is what I said, I believe.

2604. The point then comes to this that in so far as the gold standard reserve went, it was capable of causing contraction, big contraction to the full extent of the reserve; so long as the equivalent in local currency of the amounts of reverse councils was held here, specially earmarked away from currency purposes, that represented the amount of contraction which was necessary to turn the scale of the stabilised exchange?—Still the point does not seem to be clear to me. What I noticed under the old system of a gold exchange standard was that when the exports were more than imports in India, then people who had to pay to India could secure a council bill and that council bill was cashed in rupees. In this way, as we had more or less over a very large number of years a favourable balance of trade, rupees went on increasing in internal circulation. Now, similarly, if during the slack season those people who finance internal trade could secure reverse councils, not for meeting the real demands of trade but simply for locking up funds or transferring funds from the Indian market to the English market, then we could bring about a contraction in internal currency.

2605. That is exactly what this method would result in?—But in practice what we find is that funds have come to India for temporary investment from abroad, but funds have not gone out of India for temporary investment in foreign markets.

2606. Then with regard to these figures I have quoted from the 1907 period, that is a concrete period?—True, but it is a case in which we had an adverse balance of trade which created a demand for Indian currency to be locked up in the reserves.

2607. But in that period; let me put it in this way; that produced in that period a large amount of contraction of currency to the extent in local currency of the equivalent of the reverse councils which were bought in India?—Yes, it did.

2608. (*Sir Henry Strakosch.*) You mentioned in the course of your statement that you would consider the time ripe to make notes in this country exchangeable freely into gold, not merely for export but within the country, when sufficient gold had been accumulated to give a cover of 50 per cent. of the note issue. Well, taking the present note issue at about 190 crores, would you regard 95 crores sufficient gold to meet any demand that may be made for gold? —Now what I had in mind at that time was to secure the convertibility of the note issue and the particular figure of 50 per cent. I took was not based on any calculations of mine, but I think that was the figure recommended by the Babington-Smith Committee, and I took it for granted that they must have based that figure on some strong reasons and therefore I took it.

2609. But is it not very risky to recommend convertibility without envisaging what the demand for gold may be at that time?—Are you taking the demand for gold for all purposes or only for securing convertibility of the note issue?

2610. (*Sir Henry Strakosch.*) May I go a step further. We have in this country circulating notes and rupee coins. Both are equally full legal tender. If you allow gold to be drawn obviously you would allow gold to be drawn against rupee coin equally with notes.

2611. (*Chairman.*) Sir Henry, this applies to the second stage or even to the last stage of the steps which the witness described.

2612. (*Sir Henry Strakosch.*) Let me explain. Mr. Bhatnagar suggested that he would start with a gold exchange standard and he would allow convertibility into gold the minute he had reached a reserve against his notes of 50 per cent.

2613. (*Chairman.*) At this point, I thought we might take any supplementary questions on the working of the exchange standard before we got on to his proposals for the next step as regards convertibility, just in order to keep our examination in steps in regard to the exchange standard proposed. Are there any further supplementary questions on the exchange standard?

2614. (*Sir Purshotamdas Thakurdas.*) You said that the Indian has a taste for gold for ornaments and for silver for currency purposes. Did I understand you correctly?—What I really meant was this, that India in common with other countries of the world has fondness for metals for ornaments and that silver is by far the most suitable metal for currency purposes for the masses of this country. That would be my statement if I were to explain it.

2615. Silver is suitable in your opinion for currency purposes in India?—For the masses I mean.

2616. What about the taste of the people for silver currency as against gold? Have they more attraction for a gold currency, or do you think they would prefer to carry on with silver as long as they could have silver available?—It is a very difficult question to answer. Naturally they would prefer to have gold currency, but the question is whether they would be able to utilise it as currency.

2617. Your apprehension is that gold would not be suitable for the masses owing to their smaller incomes?—Smaller incomes and smaller standard of expenditure.

2618. Exactly, well then whence the psychological effect that you refer to, namely, that if gold was not available people would have a craving for gold currency, but as long as they knew that gold was available the hunger for gold coin would disappear. What do you base that on?—That is not my opinion. I quoted Sir James Digby.

2619. That is in your written statement. I thought in reply to the Chairman you spoke of the psychological effect?—What I said to the Chairman was that if we have a note issue in this country and if it is not convertible into gold for internal purposes, then it is likely to create a greater demand for gold.

2620. (*Chairman.*) The witness is referring to the lack of confidence in the note issue.

2621. (*Sir Purshotamdas Thakurdas.*) But take conditions as they are to-day. There is no gold available for notes to-day; the notes are only convertible into silver; do you think there is any anxiety on the part of the people to-day to get gold?—In exchange for notes?

2622. Yes, it is not available as currency?—So far as the masses are concerned, my experience in the villages is that they do not like the notes if they can have rupees; but whether they would prefer a gold coin in place of rupees merely for its colour or greater value and smaller weight I cannot say.

2623. Therefore, if gold coin is available, is there any reason for you to believe that there will be a rush for conversion of the silver into gold?—The class that has got silver to convert into gold is comparatively speaking a limited class, and that class is sure to run for having gold in place of rupees.

2624. But not the masses?—Not the masses.

2625. (*Chairman.*) Let me at this point, before we continue the examination, just open up what the witness does propose regarding the putting of gold into circulation and so on, because both Sir Henry Strakosch's questions and Sir Purshotamdas's questions have anticipated that, and the witness has not really told us what his proposals are. Mr. Bhatnagar's memorandum suggests several alternatives, and I should like to see exactly what it is that he proposes. If there are no further questions on the exchange standard we come to the next step. You told us that, after you have accumulated a sufficient reserve, you will take steps to put gold into circulation. Is that so?—The first step that I would take would be to declare the paper currency convertible into gold, and simultaneously to declare the rupee a subsidiary coin payable only up to a limit.

2626. Is there any other step that you will take?—Yes, and make the notes of the smaller denominations payable either in gold or silver just at the option of the holder of the note.

2627. Do you not mention, too, in your memorandum that you would cease to have the note encashable in silver? Is not that one of your proposals?—When we have declared our notes convertible into gold it follows from that; but as regards notes of smaller denominations I definitely say they should be convertible into gold or silver.

2628. They cease to be convertible into silver?—Yes.

2629. There is a reservation in your memorandum that notes of small denominations should continue to be encashable in silver?—Yes.

2630. The central point is that the rupee ceases to be legal tender except for small amounts, and the note is encashable in gold?—Yes.

2631. Do you consider that before you make the rupee no longer legal tender beyond a certain limit, you must give people an opportunity of converting rupees into gold if they want to do so?—Looked at from the point of view of equity we should do that.

2632. From what other point of view are you prepared to look at it?—You must look at it only from the point of view of equity; otherwise it will have a very bad effect.

2633. That rather suggests to me that you think it would be equitable, but that you do not think it will be possible?—Certainly it will cause some loss. Government will have to provide—one does not know how much—gold.

2634. Would you expect very much gold to go into active circulation under this proposal?—So far as the cities are concerned gold will come into active circulation, but so far as the rural areas are concerned, I

believe it will go only into hoards under the present circumstances.

2635. It would go into circulation if the equitable course be taken of allowing an opportunity for the conversion of rupees into gold?—Yes.

2636. Have you been able to make any estimate of the likely demand for gold for rupees from hoards under these circumstances?—No, I could not tell you anything on that. It is very difficult to estimate the amount of hoards in India.

2637. In the absence of any such estimate it must be difficult for you, is it not, to arrive at the point as regards the accumulation of reserves which would make it possible to take this step?—Yes; we will have to make some sort of a clever guess; and you might have some definite period, three or six months, within which people should change their rupees for gold, and after that they would not be able to do it.

2638. Do you think that would be a sufficient period in a country such as India?—I think one year will be quite a sufficient period.

2639. Are there any further details that you would like to add just to assist us to understand your proposal as to the introduction of a gold standard?—When we have done these things, that is made our notes convertible into gold and made the rupee a subsidiary coin tenderable only up to a limited amount, then I also mention in the memorandum that we should adopt some methods to make the note circulation more popular.

2640. You have suggested the restoration of the note of small denomination?—I do not suggest the restoration of one-rupee notes.

2641. What measures then are you referring to as regards the popularisation of notes as currency?—Just as during the war, when there was money to be paid the first offer was made in the form of notes, and it was only after the note was refused that rupees or other coin was given, similarly we could adopt some such attitude in the case of council bills; they should be paid first in notes and only when people do want expressly to have gold, then it should be given to them; and some propaganda work may be undertaken to educate the people in the use of paper currency.

2642. (*Chairman.*) The Government should act as a good salesman and press its wares. Now we have arrived at the point where I interrupted you, Sir Henry.

2643. (*Sir Henry Strakosch.*) My question has been answered, I think. Mr. Bhatnagar has stated that he could not estimate the amount of gold which would be necessary to satisfy all the demands of the country, when he makes gold freely available by making the notes convertible into gold?—Unless we have some accurate idea of the hoards in the country; I personally cannot put forward any definite figure—it would be more or less approximate.

2644. You will admit, however, that it is very essential to know what the requirements are so as to be able to make the necessary provision to supply gold when it is demanded?—True I realise the difficulty.

2645. And have you realised what the expense to the Indian exchequer would be to put gold into circulation, and what its effect would be upon the purchasing power of gold generally and therefore on commodity prices in India?—If a very large quantity of gold is needed to come into active circulation, then it certainly will raise the price of gold in terms of commodities; the general price level will fall in terms of currency. But I do not know if I am right in thinking that; my idea is that very large quantities of gold are not likely to go into active circulation in India, and for this reason, that a greater part of the population is living in the villages, and under existing circumstances in rural areas gold is not likely to form an appreciable part in active circulation.

2646. There is one other question I wanted to ask: you suggest that when gold is put into circulation you would make the rupee a token coin of limited legal tender?—Yes.

2647. And you would make the notes convertible into gold except that notes of smaller denomination should be convertible into a rupee token?—Or into gold, just at the option of the holder.

2648. I want to put to you this question: If it were found that to allow gold to be drawn indiscriminately for internal purposes were an unbearable burden for India and if it were found that the gold exchange standard was the most suitable form of currency, would you see any great difficulty in confining the convertibility of the note into foreign exchange or gold for export only?—As a matter of fact it will come about ultimately under my scheme as well; but after thinking long over this problem I have come to this belief, that in India, unless we have made gold once freely available to the people, we will not be able to remove the attraction for gold which is existing and which is getting a very large quantity of capital in unproductive uses; and practically the one reason in my mind for recommending the free introduction of gold into active circulation is to educate the people in the use of gold.

2649. I should like to ask another question in that connection: I take it that you would be not in favour of confining the convertibility of the notes into gold for export or for foreign exchange under a gold exchange standard. Am I correct in that assumption?—Under gold exchange standard we will have notes only and the rupees also only convertible into gold for foreign exchange purposes.

2650. Not for rupee coin? At present the notes are convertible into rupee coin. Would you see any difficulty in taking away from the note the right of conversion into rupee coin and confining the convertibility into gold for export or foreign exchange?—Then the note will become inconvertible so far as the internal circulation is concerned; that will have a very depressing effect.

2651. Would you consider the same to apply if you were to prescribe that notes above a certain denomination shall only be convertible into gold for export or for foreign exchange and notes of a small denomination convertible into either?—No; in the beginning I would have notes convertible both for internal circulation as well as for foreign exchange because my idea is to utilise that stage of currency development as an educative process, to remove the fondness for gold from the Indian mind.

2652. (*Chairman.*) I think, as a matter of fact, these matters are so very clearly stated in your memorandum that I have not any elucidatory questions to ask you upon that point.

2653. (*Sir Henry Strakosch.*) But you see no impediment of an intrinsic character to the suggestion I have just made; I mean, you would not see any difficulty in maintaining the purchasing power of the rupee stable even if you took away the right of convertibility into the rupee coin?—All the notes? May I know, Sir, if you are referring to the exchange rate for foreign purposes or for internal purposes?

2654. Both.—The question, I am afraid, is not clear to me.

2655. I wanted to know whether if you took away from the rupee note the right to be converted into rupee coin the purchasing power of that note would in any way be influenced by this curtailment of right?—I think it would be. During the war we know, for example, notes were not freely encashable into rupees and that led to a great depreciation in their value.

2656. But if those same notes had been convertible into gold for export or foreign exchange, would the notes have depreciated?—In the rural areas they would have depreciated as they did in that scheme. In cities like Bombay or Calcutta it may not have led

to depreciation in their value, but so far as the up-country towns and up-country rural tracts are concerned the position would have been exactly the same.

2657. It would?—Yes, what does it matter to an up-country man living in villages whether the notes are convertible into gold for external purposes or not if they are not encashable within the country where he is living.

2658. But would not the exchange broker in Bombay or Calcutta immediately step in when the notes had reached a certain discount and buy them because he knows he can get foreign currency for them?—The point I was referring to is that if notes are not encashable in the internal currency whether in gold or rupees for internal purposes and are only convertible for foreign exchange purposes then we will have in the up-country towns and small towns and villages, *batta* (discount) on notes.

2659. I see?—I do not know how the brokers in Bombay and other places could help it.

2660. By sending up coins and buying the notes at a discount?—That means another source of profit at the expense of the masses to brokers in the big cities.

2661. True. But equally that discount would be kept within their moderate limits just the expense of shipping the coin to the place?—But why should we have that at all?

2662. (*Sir Henry Strakosch.*) I was merely pointing out that there is a limitation to what you say. I appreciate your point perfectly. Thank you.

2663. (*Sir Purshotamdas Thakurdas.*) There are few questions to ask in view of what Mr. Bhatnagar has said since I put off my question. I would just like to put it to you, if, Professor Bhatnagar, you said that gold currency will not go much into rural areas?—Yes, that is what I said.

2664. Well, then the rush for gold currency when it is made available will be merely by those who have hoards?—In the greater part of the country, we will have a rush from people who have hoards in rupees.

2665. And you yourself are not able to tell us what is the amount in hoards nor how many hoards there are?—No I could not tell you.

2666. You have no information at all about it?—I think as far as my knowledge goes, no estimates about hoards have been made so far. I have no idea.

2667. You are aware there are some people in India whose opinions are worth consideration who believe that this question of hoards is, except up to a certain limit, more or less a myth and exaggeration. Have you heard that?—I myself believe that so far as the masses are concerned there is not much of hoarding, but I know definitely some cases where hoards do exist. There are certain classes, although it may be very difficult for us to believe it, I know 2 or 3 cases, where a man simply keeping about 90 lakhs of hard cash, and there is a gentleman in Agra (anyone can see his papers and find it out) who has 90 lakhs hard cash which he is not using in any productive enterprise. The Collector and the Commissioner wanted that the money should be deposited in Government promissory notes during the war, but the gentleman refused to do so, although he contributed to the war loan about 10 or 20 lakhs. He said that this money was the backbone of his whole business and that it was not meant for investment. We have got such instances.

2668. Exactly. That is the point. These are men who hold the other view which I put before you that there are hoards up to a point, but they are not up to the percentage of the total circulation that appears to be generally believed by some in India or outside India?—The whole difficulty is that the whole question is to be discussed in terms of vagueness.

2669. That is it, it is a question of guess?—I have no definite idea about it.

2670. What is the total circulation of rupees in India?—I could not tell you that without consulting some publication.

2671. What do you think would be a fair amount of rupees that may be allowed per head of the population, knowing their means, knowing their income, and their fondness they have for silver coin, what would you, as a person who has studied this question very fully, allow?—We could not have any definite figure for any long time because the income of the different people would be increasing or decreasing. The number of rupees per head for exchange purposes for a certain class first of all will have to vary with each class and for each class it will depend upon its income and expenditure.

2672. I was only asking, Professor Bhatnagar, if you are in a position even to give a rough estimate of a figure you may have thought of?—I have not thought of it as a matter of fact.

2673. Then, could you tell the Commission regarding the Chanakya Society in Patna that you have referred to in your statement (page 103, Appendices). What is that society and what are they doing?—It is a society consisting of students and Professors of Patna College. It has been in existence for the last 10 years or so. They have a number of lectures. They organise number of lectures on economic subjects. They go outside and study the condition of the different classes of people. They have collected a large number of family budgets, and also published them in a bulletin form. They go and study individual industries, and write small monographs on them. That is their function.

2674. They are carrying on some sort of statistical work in connection with the economic condition of the people of India?—They are collecting in their neighbourhood the family budgets.

2675. It is only confined to their own province?—Not even to the province.

2676. Then to their own district?—Yes.

2677. Then the Economic Board of the Punjab is a Government Department?—No, it is not a Government Department, although it is helped by Government. It is a public body.

2678. Do they keep on issuing statistical information regarding the Punjab or all India?—From time to time they publish some small monographs with regard to the Punjab only.

2679. (*Chairman.*) Would it assist you if we ask the Secretary to procure copies of the publications of these societies?

2680. (*Sir Purshotamdas Thakurdas.*) I thought so. There was a question raised by Sir Henry Strakosch at an earlier stage whether there were any private bodies in India which carried on the collection of figures, and I thought, Professor Bhatnagar, since he mentioned this point might give us some interesting points or perhaps specimens of what sort of work these authorities do and that might interest some of us. I knew myself something about these institutions but I thought the witness might know more.

2681. (*Chairman.*) We might get a copy of the latest publication of this society.

2682. (*Sir Purshotamdas Thakurdas.*) You mentioned in the course of your earlier reply the case of a gentleman and the amount of cash hoarded by him. I think you said 90 lakhs.—Yes.

2683. Do you think that represents the average amount that the said person keeps in hoard?—As far as my knowledge goes he says that was the backbone of his business and it was never to be invested, but it was to be kept. It was a sort of standing hoard whether it was war period or normal period.

2684. (*Sir Reginald Mant.*) Mr. Bhatnagar, I understand that you advocate the introduction of a gold currency as soon as Government has accumulated a sufficiently large gold reserve to meet all possible demands? Is not that your position?—I do not say all possible demands. I say as soon as it has accumulated sufficient gold to make paper notes convertible into gold. That is, we have got 50 per cent.

We may have some other percentage. I will not stick to 50 per cent. because one cannot say what percentage will be necessary to back up our note circulation. That was the figure given to us by the Babington-Smith Committee. This figure should always be calculated by some experts and not by theoretical people like myself.

2685. Then you would introduce gold currency as soon as 50 per cent. of the Currency Reserve is in gold?—I would make paper currency convertible into gold as soon as we have got this 50 per cent. gold of the note circulation.

2686. And supposing that that gold was drained away in exchange for rupees, is not there a risk that your notes would then become inconvertible because Government would not have sufficient gold to meet them?—For that you have to make a separate provision when we declare our rupee to be a subsidiary coin. As I pointed out some time back to the Chairman, we will have to give some little time to the public to change their rupees into gold, for that we will have to make some provision. How much that will be I could not say.

2687. (*Chairman.*) That is in addition to the 50 per cent.?

2688. (*Sir Reginald Mant.*) Well then, you would not make notes convertible into gold until you had accumulated another reserve to meet the possible drain of rupees? Is that your position?—Certainly.

2689. You cannot estimate what the amount is likely to be which will be required for that reserve?—I have not made any attempt to estimate that. It may be possible to have some rough estimate of that made in the Currency Department of the Government of India.

2690. But if you cannot form an estimate of the amount of gold required, how are you to know when the time has come to make your notes convertible into gold?—I do not mean to say that we cannot estimate, that there is no possibility of ever estimating the money required for exchange of these rupees. What I say is that I have not attempted to do that part of the problem.

2691. (*Sir Maneckji Dadabhoy.*) From the result of your discussion I understand that you feel the difficulty that it will be almost impossible to make the estimates of the required gold?—It will be difficult, no doubt, but I do not believe it is impossible. We must arrive at some workable figure. Unless we do that, we cannot adopt the system.

2692. You will agree then that it will be extremely risky for the Commission to recommend convertibility without making sure of the actual gold requirements?—Certainly, for a body like the Commission, it would be very dangerous to make that recommendation without having some idea more or less accurate of the quantity of the gold required.

2693. And at present there is no reliable data for making such estimates available?—I am not prepared to say there is not reliable data because I have not attempted even that.

2694. (*Chairman.*) I think Mr. Bhatnagar's evidence on that point is very self-consistent. He says that he would take the step, but he would not take it until he had reserves adequate to cover the purpose. He himself is unable to make an estimate of what those reserves would be, but he thinks that it is not impossible that somebody with the final information may be able to get the requisite information based upon that hypothesis?—I do not know why it escaped from my mind at that time. That part of the problem has only just become prominent to me. That is why I feel some hesitation in offering any definite ideas on the subject. I may try later on to attempt that problem.

2695. If you arrive at any results I am sure the Commission will be most interested to have any further notes on the subject. I have only one further question to ask, and that is with regard to the question of stabilisation, with which you deal at some length. I understand it is your opinion that if a rate is to be chosen for stabilisation of the rupee it should be the current rate round about 1s. 6d. Should I be accurately expressing the general trend of your argument if I say that you chose that rate because on the whole it will cause less disturbance?—That is my idea.

2696. And that you know of no argument for another rate which would weigh against the undesirability of the disturbances which will be caused by working to the other rate?—That is the general position.

2697. That is the general position you occupy?—Yes.

2698. As against the 18 penny rate I understand that you had advanced one difficulty and that is that it does not make the rupee into a whole fraction of the sovereign?—Yes, that is the main difficulty.

2699. (*Chairman.*) These matters are dealt with so clearly in your memorandum that I have no further elucidatory questions to ask upon them. Are there any supplementary questions which members would like to ask?

2700. (*Sir Purshotamdas Thakurdas.*) Mr. Bhatnagar, towards the end of your memorandum (page 111—Appendices), you say, "May it not mean that as new conditions created by the war will have assumed a more or less permanent character their result on India will be a new adjustment of her exports and imports, as well as of her price level within the country." Now, the price level of all countries—important countries at any rate which have had a solvent currency left after the war—has advanced, hasn't it? Take the United Kingdom as compared with 1914. It is higher to-day than it was in 1914. Take the U.S.A. It has advanced. Your own statement shows that?—But lately they have been going down.

2701. And so has the price level in India been going down?—It has not gone down to the same extent.

2702. Yes, but the broad fact is that the price level has gone down alike in all countries more or less?—What do you mean by "alike"?

2703. They have all gone up to a certain point 30 per cent. or 35 per cent., whatever you like to call it?—As compared with 1914, which I take as 100, in India the price level is at 133 to-day, while in the United Kingdom it is at 162 (table B). They are based on the index number.

2704. (*Sir Purshotamdas Thakurdas.*) I know professor Bhatnagar has given the levels for 1923, and I propose with your permission to ask him about the figures on which he has himself relied.

2704A. (*Chairman.*) I was not quite sure where Professor Bhatnagar's figures actually came from. Those of India for 1914, to which I think you are referring, are from the official index.

2704B. (*Sir Purshotamdas Thakurdas.*) I am only taking it as a basis and the accuracy of the figures hardly matters. Have any of these countries thought it necessary, or indeed advisable, to change their pre-war ratio in order that the price levels may be controlled thereby?—No other country has had the peculiar currency condition that we have passed through. That is our difficulty.

2705. Namely?—We had a system before the war. We stopped the working of that system, we left the rate of exchange to take its natural course. Before no other country has this problem come up in this particular form. What should be the rate of exchange? It is only before us the question has come.

2706. It is, according to what you say, because of the defects in the currency policy of the Government of India till after the war that you think it is justifiable to change our pre-war ratio. Is that correct?—I would put it this way that because the system we were working upon broke down somewhere during the war and after, whatever may have been the cause of that break-down, we will not enter into

that—that now we have been compelled to ask ourselves the question what should be the new system to be officially introduced.

2707. It broke down and a readjustment was arrived at at a time when the currency systems of other countries also were wide apart from their pre-war normals?—Yes.

2708. Therefore you say that you favour a change in this ratio because a change in the ratio was made in 1920?—Yes, but as a matter of fact, we have not been having a fixed ratio all this time.

2709. But England till lately aimed at a return to the pre-war gold point and brought back the ratio to the pre-war point?—It is not they that have brought it back. It is the conditions of trade that have brought it back.

2710. Would it come back to India if there was no change?—It did come back to 1s. 4d. after going up to 2s. 11d.

2711. And still you approve of the new ratio being fixed at 1s. 6d.?—What I say is that it may have been a mistake not to have stabilised when we had the ratio of 1s. 4d.

2712. Do you agree that it was a mistake?—The whole policy was a mistake that was adopted by the Babington-Smith Report—there is no doubt in my opinion about that.

2713. In your opinion it would have been correct to stabilise at 1s. 4d., when we did reach 1s. 4d., gold?—I am not prepared to make that statement either. The only statement that I am prepared to make is that the adoption of the definite measures of currency after the report of the Babington-Smith Committee, when the conditions in the world were not stable enough for the adoption of any permanent policy, was wrong. Having made one wrong move, the Government had to go on and make other moves.

2714. And this is the logical sequence of it which you are prepared to approve?—Logical or unlogical, we have got to make the best of it.

2715. Supposing the rate had been rushed up to 1s. 7d., would you have approved of that?—Provided you convince me that this rate of 1s. 6d. has been rushed up too.

2716. Supposing it was brought up to 1s. 6d.?—If I was convinced that it was deliberately brought about by the Government I should take a different view. But because I believe and honestly believe that it has come about because of trade conditions in India and in foreign countries, I say: better keep it.

2717. But if you were in such touch that you had reason to believe that it was worked up to then your ground for support of 1s. 6d., that you mentioned to-day would not weigh with you?—Perhaps not.

2718. Then at the beginning of the fifth paragraph from the end of your memorandum, you give us reasons why the rate should not go to a higher figure than 1s. 6d. And you say that that would mean injustice and hardship to a lot of people in this country. It would mean injustice and hardship because a change has to be made from the present figure. Or would it mean injustice and hardship because the change to 1s. 8d. is by itself undesirable?—Any departure whether downwards or upwards from the figure existing to-day would mean a hardship or injustice to one class of people or another.

2719. Did it mean hardship and injustice to a lot of people in the country when the figure was changed from 1s. 4d. to two shillings?—You are referring to the war period when the rate of exchange was raised.

2720. After the war, was it not? The change was made in the statute here in 1920?—The legal change, otherwise the rate was going up the whole time. The legal change as a matter of fact was never effected.

2721. The Government gave out gold coin on the basis of Rs. 15 in 1918?—But for a very short time.

2722. But they did. As far as the legal ratio was concerned, it was effective?—It was not effective in the sense that it was never maintained in foreign exchange.

2723. The change from 1s. 4d. to two shillings in your opinion caused no hardship then to India?—The change from 1s. 4d. to the legal ratio came in the middle when we were already at a very high rate.

2724. Therefore it did no harm?—Not as much harm as it would have done if we had raised it of a sudden from 1s. 4d. to two shillings.

2725. You believe that a change from 1s. 6d. to either a higher or lower figure would be undesirable because 1s. 6d. is the rate prevailing to-day?—And because people have made their contracts at the prevailing rate.

2726. What contracts have you in mind?—The exporters and importers must have based their contracts on the basis of this rate and must be expecting payments on the basis of this rate.

2727. Therefore, the disturbance to the commercial community is what weighs with you?—Yes; and then again the change will react upon the price level also to a certain extent, and that might cause some hardship to some people.

2728. There is just one more question, that is in connection with the following remarks you make (page 110 Appendices)—"we should therefore for the time being resume the gold exchange standard system as we had it during the pre-war period and be ever watchful for the accumulation of gold in India in the paper currency reserve till we have brought it to the level of fifty per cent. of the note circulation." What are the special precautions that you think should be taken for this watchfulness"?—As I have also mentioned in the memorandum, first of all we should keep the whole of the paper currency reserve in India.

2729. I just want to know whether you want it to be enacted by statute, or you think that there should be any special watchfulness exercised by the Indian public?—Not by the Indian public.

2730. In the statute it should be made compulsory on Government to do so?—Exactly. At the end of the memorandum I specially mention these points.

2731. And it should be made compulsory on Government not to depart from what you recommend, should be enacted by statute?—The Indian currency system should no more be worked by the mere decree of the executive; it should not depend on the will of the executive but should be based on definite legal enactments.

2732. That is the change that you want from the pre-war system?—Yes, and a very important change.

2733. (*Chairman.*) As I understand it, you think that every sharp or sudden or artificial change in the rate of exchange does harm to somebody?—Yes.

2734. And therefore you conclude that the fewer the changes the better, and that is why you are in favour of the maintenance of the present rate?—Yes.

2735. And you consider that the present rate is the result of the balance of economic forces rather than any artificial action?—One point was recently brought to my notice in this connection, and that is that Government has not been coining sufficient rupees. That might have contributed to the result to a certain extent, but largely speaking I should think it has been the result of economic forces.

2736. (*Sir Maneckji Dadabhoy.*) You have given two reasons for keeping the present rate—that it is both desirable and justifiable to take a higher rate of exchange than we had before the war, not only because it would keep prices low for the masses, but further because it would give greater protection in the future against another rise in the price of silver. The first point my colleague, Sir Purshotamdas Thakurdas, has dealt with. I would like to ask one or two questions with reference to the protection which you like to secure in future against another rise in the price of silver. You will admit that the extreme fluctuations in the

price of silver during the war are not likely to recur again?—Unless we have another war or so.

2737. Of course if another war takes place, the currencies of the world will all be upset?—I cannot say that definitely, but more or less that will be so.

2738. Then your object is to provide a suitable margin by keeping this rate of 1s. 6d., I understand?—I have selected the 1s. 6d. rate because it is the existing rate and is likely to do the least harm to all concerned. But that is only a subsidiary argument to my main point.

2739. You want the present rate as it provides a suitable margin of protection against the price of silver and the melting value of the rupee?—Yes, it does.

2740. And therefore you desire to keep that rate? Yes.

2741. Will you tell me what amount of margin as represented in pence would be a suitable provision? —That entirely depends on the actual rise in silver, and one cannot make an estimate how far the price of silver may go in the future.

2742. Take the last price. In the last financial year we had fluctuations between 36 and 31d., and it went even lower down. Why do you want to keep this extreme margin of safety?—I have said at the very outset that I have not selected this rate to provide a margin for the rise in the value of silver; that is not my argument at all; I simply point out by the way that if ever the price of silver rose, there we would have a margin.

2743. You have not considered in dealing with this question how the price of silver actually affects the position. You speak about protecting silver against a future rise. Then in making that assumption you have not taken the actual margin of safety that is required?—I never approached the rate from that point of view.

2744. It might be possible that a small margin would be an adequate protection?—Perhaps.

2745. (*Chairman.*) There are no further supplementary questions to ask, I think. I should like to express our thanks to you for your assistance to-day and for your memorandum.

(*The witness withdrew.*)

NINTH DAY.

Friday, December 4th, 1925.

Present:

The Right Hon. EDWARD HILTON YOUNG, P.C., D.S.O., D.S.C., M.P. (*Chairman*).

Sir Rajendranath Mookerjee, K.C.I.E., K.C.V.O.
Sir Norcot Hastings Yeeles Warren, K.C.I.E.
Sir Reginald Arthur Mant, K.C.I.E., C.S.I.
Sir Maneckji Byramji Dadabhoy, K.C.I.E.
Sir Henry Strakosch, K.B.E.
Sir Alexander Robertson Murray, C.B.E.
Sir Purshotamdas Thakurdas, C.I.E., M.B.E., M.L.A.
Professor Jahangir Cooverjee Coyajee.
Mr. William Edward Preston.
Mr. A. V. V. Aiyar, C.I.E. } (*Secretaries*).
Mr. G. H. Baxter. }

Professor Gyan Chand called and examined.

2746. (*Chairman.*) Professor Gyan Chand, you are a Master of Arts and Professor of the Economics Department in the Benares Hindu University?—Yes.

2747. Since when have you occupied that position? —I have been teaching economics for the last five years.

2748. Before that, what was your position?—I was a student.

2749. You have occupied that position since your student days?—Yes.

2750. You have been kind enough to furnish us with a very full memorandum* setting out your views in relation to the Indian currency. If I may, I will ask you a few questions in order to ascertain the degree of emphasis which you lay upon the various points raised and to elucidate any matter which seems to require elucidation. It will be most convenient if I turn, in the first place, to the summary of conclusions given in paragraph 22 of your memorandum. Will you, in the first place, tell us, in relation to your conclusion that India should endeavour to have a gold standard, what in your opinion are the principal advantages to be gained by the adoption of a gold standard?—One advantage of the gold standard is that it will command the confidence of the people. Gold exchange standard somehow or other has begun to be suspected, and if we can put gold standard in its place without creating any other embarrassment for ourselves, we will thereby be creating an atmosphere of confidence.

2751. Confidence in what?—Confidence in the basic features of the system. That it is a sound currency and likely to work well. A belief of that kind will be generated by the establishment of a gold standard.

2752. (*Sir Alexander Murray.*) At this end we do not catch what the witness says?—I was asked to say what will be the advantage of establishing a gold standard in the country. I say that one advantage will be that it will create an atmosphere of confidence.

2753. (*Chairman.*) Then the further question was, confidence in what?—Confidence in the fundamental basis of the currency system; in its soundness.

2754. What would soundness mean in that connection?—Soundness would mean different things for different people. But a general belief that the currency system of the country is being worked in the interest of the country makes the system a sound

* Appendix 15.

system. The general feeling itself is a matter of some importance, and since the people are likely to have greater faith in gold standard rather than in gold exchange standard, that will certainly be a distinct advantage.

2755. The confidence then would be that the system was in the interests of the country?—Yes.

2756. What circumstances in the system would people fix upon as being in the interests of the country?—People generally do not reason about things very clearly. When they vaguely feel that the system is a gold system and it is worked in the interests of the country, they are satisfied with it. If the reverse impression gets abroad, people feel differently, and then, in spite of the fact that the system is a good system, they are likely to distrust it.

2757. Then, in the first place, the advantage of the system would be in producing in the uninstructed a sense of confidence?—I do not mean to suggest that it will create an atmosphere of confidence only among the uninstructed. The number of people who understand currency system and currency matters is very small indeed. Even the instructed people are likely to have greater faith; even people who understand these things are likely to have greater faith in the gold standard rather than the gold exchange standard. I do not mean the illiterate masses only.

2758. Let us then turn to the opinion of the instructed. I understand that, in your opinion, they, too, would think that the gold standard was in the interests of the country. That, indeed, is your opinion as one among the instructed, is it not?—I merely put it that way; that people in general will prefer to have gold standard rather than gold exchange standard.

2759. Let me pass on from what you have very clearly described as the general atmosphere of confidence in the public at large to what are the real reasons which, in your opinion, would make the gold standard the best for the country?—It will to a certain extent simplify our exchange problem. In the immediate future probably exchange will have to be left to take care of itself; but ultimately when gold standard can be established and conditions are ripe enough for the purpose——

2760. Conditions are ripe enough for what?—For the establishment of the gold standard. The establishment of gold standard will simplify the exchange problem. But it might not solve it. Then, also, it may need further looking after. But the problem of exchange will be simpler under gold standard than under gold exchange standard.

2761. Will you outline the nature of the simplification which would be effected by the adoption of a gold standard?—I do believe that an exchange when gold standard is finally established will be looked after by the banks, exchange banks, though to a certain extent the banks will need the assistance of the National Currency Board whose establishment I recommend in the last paragraph of my memorandum. This knowledge that gold is available in exchange both for internal and external purposes will create confidence and reduce the responsibility of the Government for the maintenance of exchange. The essential difference between the gold exchange standard and gold standard is that while under the former, that is under the gold exchange standard, gold is not available for internal purposes; under gold standard, gold is available for internal purposes as well.

2762. I understand it is your opinion that, if gold is made available for the internal purposes against rupees, it is unlikely that there will be any large demand for gold to be actually taken out for internal purposes?—Internal circulation, yes.

2763. Let us distinguish between the purpose to which you have just referred for internal circulation and the further purpose for the conversion of silver hoards. What is your opinion as to the probability, if the right to obtain gold against silver be given, of any amount being taken by the public in substitution for silver hoards?—Do I understand it that I am to give my opinion as to the amount of gold which will be required?

2764. Whether any will be required, and, if so, whether you can make any estimate as to how much will be required?—Gold is likely to be required for two purposes, one for the purpose of internal circulation and the second for hoards and ornaments. As for internal circulation, I believe that the amount of gold required will be very small indeed, and therefore we need not have any misgivings on that score.

2765. Upon what do you base that opinion?—Gold is unsuitable for every day payments. Payments are very small in most cases, and gold is not likely to be passed from hand to hand.

2766. Are you taking into consideration also, to any extent, the past experience of the Government of India as regards the promotion of a gold circulation?—Once or twice they have tried to put gold into circulation, once between the years 1860 and 1870 and then again from 1900 to 1902, and on both the occasions gold came back. It did not get into circulation. They tried to put it into circulation, but it returned to the Treasury; and therefore the presumption is that the people are not likely to make use of gold for currency purposes to any considerable extent. From our own knowledge of economic life we know very well that for the masses gold is unsuitable for everyday use. Their income is very small; their payments are very small, and they are not likely to make use of gold.

2767. Now let us take the second possibility?—That depends upon the rate at which gold is available. If the Government rate is not more favourable than the market rate, there is no reason why people should go to the Government when they get as much as they like in the market. They are already paying as much money for this unproductive use as they can, and I do not see any reason why people are likely to go to the Government when Government is prepared to give it at the same rate as they can get it in the market.

2768. Do I understand this to be your opinion, that the demand for fresh gold for hoards and for ornaments would continue to be supplied through private sources as at present?—It should be supplied by private sources.

2769. Then there is the third possibility to which I would refer you, and that is if gold is freely available against rupees it might result in the conversion of large hoards of silver rupees which at present may be held in the country. What is your opinion as to that possibility?—We do not know as a matter of fact the magnitude of these hoards. We cannot calculate what is the amount of rupees which are lying in hoards; but we take it for granted that the fact that the people do not now convert silver into gold shows that they prefer silver to gold under the present circumstances. They prefer to preserve their hoards in that form and so they are likely to do the same if the gold standard is established. The mere fact that the Government is prepared to give gold does not make them more eager to get gold.

2770. Let me put a further supposition to you in this connection. I understand it is your advice that, on the adoption of the gold standard, the rupee should continue to be unlimited legal tender?—It is not my advice. But I think that it is not possible to dethrone rupees for some time to come.

2771. That is what I wanted to ask you?—I would, if I had my way, like the rupee to go. But it would lead to some embarrassment and is likely to create trouble. It is not in our hands to withdraw rupees from circulation, after they have occupied a very prominent position all these years.

2772. Referring to this possibility, you say in paragraph 12:—"The remedy will be heroic and possibly efficacious, but as far as it is possible to look ahead, it will not be practicable." I want to ask you why, in your opinion, the limitation of the legal tender of the rupee, as far as it is possible

to look ahead, will not be practicable?—Well, on account of a very old and long established habit people have come to believe that the rupee is the standard coin of the country. They have put by their money on that supposition; contracts have been entered into on that supposition; and if you now demonetise the rupee or make it a token coin in the ordinary sense of the word, that will be considered a breach of faith and the masses are likely to feel it much more than any other measure which Government is likely to take for establishing a sound system of currency in the country.

2773. I did not quite apprehend your last sentence; might I have it again?—I said people have come to believe that the rupee is the standard coin; all their contracts have been entered into on that supposition; money has been put by in hoards, and if you dethrone the rupee from its position the people will consider it a breach of public faith and it is likely to cause a very great amount of dissatisfaction.

2774. But under your proposal, as I understand it, for the final introduction of the gold standard, you would be prepared that the Government should take in rupees and pay out gold at whatever the rate then was?—Yes.

2775. After that right had been conferred upon the public for a period, would you consider that after that period it would still be in the nature of a breach of faith with the public to limit the legal tender of the rupee?—The period will have to be very long; long enough to make the people feel that the change is going to be brought about. I will also suppose that the people have been weaned from their habit of using silver rupees. Just now they seem to prefer silver rupees to note and gold. If after the gold standard has been established a period long enough to get people accustomed to the new state of things is allowed to lapse, then possibly it will be practicable to make the silver rupee limited legal tender.

2776. What considerations should be taken into account if an effort were made to estimate how long that period should be?—It is really very difficult to say. It will all depend upon economic conditions in India, and also the habits of the people, whether they have taken to gold and notes more readily than they were doing before.

2777. What economic conditions will be relevant in this connection?—The greater economic prosperity of the people and their ability to do without a small coin like the silver rupee. If people are prosperous and payments are comparatively large, rupees can certainly be done away with.

2778. If we look forward to a time at which it was equitable to limit the legal tender of the rupee would that, in your opinion, have any very great effect upon the amount of rupees in active circulation?—Well it depends on whether you make rupees limited legal tender up to a thousand rupees. I mean if the legal tender is limited up to a thousand rupees and not above, then it may not affect that amount.

2779. Let me take some more usual figure, say, fifty rupees?—Well, I think if you fix that amount, to a certain extent I cannot say how much the active circulation of rupees will be decreased because rupees are being used for contracts involving very big amounts, not thousands but certainly they are being used in hundreds, and if you make it legal tender only up to Rs. 50 I daresay the active circulation of rupees will be thereby decreased.

2780. One cannot of course make a precise estimate about so hypothetical a matter, but would you be contemplating a very substantial increase of rupees in circulation some 5 or 10 per cent. increase or a sum of that order?—I will take two things into account, first, the limitation regarding legal tender, and secondly the economic condition of the people. If people are better off and their individual payments are bigger than they are to-day then the reduction of the silver rupee circulation will certainly be substantial. But if people continue to be poor, as poor as they are to-day, then I do not anticipate any appreciable reduction in the circulation of the silver rupee. It all depends upon the economic prosperity of the people.

2781. I want now to call your attention to the question of the degree to which it would be necessary to accumulate gold in the reserves before, in your opinion, it would be safe to take the step of the introduction of a full gold standard. I think somewhere in your memorandum, if I remember aright, you express the opinion that there should be a reserve of 50 per cent., do you not?—At present what I say is just this, that we have got about 200 crores of rupees in circulation and we have about 180 crores of notes in circulation. If we convert our silver rupees into paper currency reserve and our sterling securities into gold we can get about 50 per cent., of gold as a backing for rupees and notes in circulation, and that I should consider adequate under the circumstances.

2782. That is upon your assumption that there would in fact be, as the result of this step, no great demand for gold to be taken out either in the form of currency or in substitution for silver hoards?—Well, even if we allow some substitution for silver rupees by gold, still 50 per cent. ought to be enough as a backing for silver rupees and currency notes. It is a very big amount and I daresay it will carry us through.

2783. Now let me put to you the supposition, which I ask you to accept knowing that it is a mere supposition, that there are 150 crores of silver rupees in hoards; and let me put to you the further supposition that the result of the adoption of this measure, that is, the introduction of the gold standard, led to a demand for gold in substitution of the whole or the greater part of the silver hoards of the country; in the first place, you would agree, I imagine, that that is a possibility though you do not look upon it as a probability?—I consider it a possibility so very remote as not to be worth while taking into account.

2784. So I understand. Now let me ask you to make a further supposition, that some such demand does arise. Under those circumstances would you consider that the reserves to which you have referred would be adequate for the safe introduction of the measure?—These reserves have been taken just for the purpose of illustration. I do not attach much importance to them. The total amount according to me will amount to about 170 crores; if 150 crores of rupees are in hoards and all of them seek conversion the gold standard will certainly break down.

2785. It is making suppositions that you do not desire to make?—I would not like to subscribe to them.

2786. (*Chairman.*) So I understand. Of course the answer to my question is, as it were, a necessary answer. Now let me proceed to the next step, but before I do that I think I might ask if there are any supplementary questions on that point, as I am now going to introduce a new topic.

2787. (*Sir Rajendranath Mookerjee.*) Having regard to the fact that within the last few years there has been established a system of co-operative banks in the villages, and also to the fact that the Imperial Bank has established nearly 100 branches all over the country, is the habit of hoarding for which the Indian has been noted, in your opinion, on the increase or on the decline?—If we are to judge from the amount of gold imported——

2788. I am not talking about silver or gold but about the Indian's habit of hoarding?—Yes, one very good index of whether the habit is increasing or decreasing is to find out the total amount of gold that is imported for consumption purposes.

2789. Considering that the banking system is fast spreading all over the country, is it not possible that the habit of hoarding is now on the decrease?—Well it is very difficult to make a definite statement on that point, but, as I was saying, one very good index for finding out as to whether this habit

is increasing or decreasing is to find out the amount of gold we are importing every year; and that as you know very well has been increasing. Last year it was 70 crores. The whole of it has gone into hoards; and I presume the habit is certainly not decreasing very much.

2790. Then let me put to you another question. Over 70 per cent. of the people are cultivators, 70 per cent. of the Indian population?—Certainly.

2791. And they have within the last few years since the War been living from hand to mouth?—I take it that is so.

2792. Most of them have only two meals a day?—I would not say most of them; some of them.

2793. Very goed, but they are very hard up. For the last few years, time has been very hard for them. Do you think they can now afford to hoard to anything like the extent they used to do when they had prosperous times?—I do not believe that the cultivators are worse off than before. They are poor; their standard of living ought to be raised and that will depend upon the economic development of the country, but their capacity for hoarding has not decreased during the last few years of the War and since the War there has been no appreciable deterioration in their economic condition.

2794. There is another question I should like to ask you on this heading: They hoard these coins to meet their necessities during the time of famine or other contingencies, is it not?—And also for social and religious purposes.

2795. Therefore do you think those people who hoard a small amount of coin would be inclined to change their silver into gold or that they will keep the silver in order to facilitate their expending the money as and when they like to do so?—I do believe that the establishment of a gold standard would not lead to a great demand for gold for conversion.

2796. (*Professor Coyajee.*) Assuming that the introduction of a gold standard was simultaneous with the rupee being deprived of full legal tender, in that case the demand for conversion of rupees into gold would be very large?—It would be considerably greater than it would otherwise be.

2797. And perhaps some of the notes might come forward for being converted?—About that I am not in a position to express any definite opinion. I should think that there is no reason why the number of notes which are likely to be converted into gold will be increased.

2798. I will tell you why: I will make a suggestion. Suppose silver was being thus demonetised; the owners of silver ornaments would also like to exchange them for gold and the instrumentality for such conversion would be to sell the silver for notes or rupees and present them for being exchanged into gold?—We have got to assume that the demonetisation of silver rupees will lead to a demand on the part of the cultivators to convert their ornaments into gold. The value of these ornaments is not very large and they are required for social and religious purposes and I believe that there will be no general or widespread desire to convert their ornaments into gold.

2799. Don't you think the demonetisation of the rupee and the sale of a portion of the rupee would lead to a fall in the price of silver and to the expectation of a still greater fall, and will not that induce the owners of silver ornaments or hoards to try and sell as soon as possible?—It is very difficult to say how the masses are going to behave, because the considerations of what we call the crowd mind have got to be taken into account; and as you know the working of the crowd mind is very tricky and inexplicable; but all the same, if there is a general belief that the price of silver is going to fall, then there might be a considerably large amount of conversion of ornaments into gold; but as the process of introduction of the gold standard will take time, I do not think that there will be a sudden and general depreciation in the price of silver.

2800. (*Sir Maneckji Dadabhoy.*) This process of hoarding has been going on in this country practically, we may say, for centuries?—Since time immemorial.

2801. And this hoarding, as I understand, is partly in gold and partly in silver: when it takes the shape of gold it is a sort of investment in ornaments, is it not?—Generally.

2802. And not for the purpose of laying by for a bad season or anything like that?—People do convert their ornaments into money if they have bad times.

2803. But otherwise they always keep a certain amount in silver for the purpose of immediate requirements, is it not, against bad harvest and bad times?—Do you mean to say silver coins?

2804. Yes?—They do keep a certain amount of money in silver coins.

2805. And this appetite for hoarding gold is now in a great measure satisfied by private imports?—That it is.

2806. Then do you think that the introduction of a gold standard will in any way accelerate the hoarding any further?—I definitely do not. I have said that much in the memorandum.

2807. And silver will still continue to form a part of the hoardings?—To a certain extent; but as the people grow richer they will take more to gold and leave silver.

2808. And that will be a very slow and gradual process?—Yes, since the economic development is going to be slow.

2809. And it will not interfere with the introduction of the gold standard?—It should not.

2810. (*Chairman.*) It is not quite clear to the witness whether your questions proceed upon the basis of a previous limitation of the legal tender of the rupee or no such limitation.

2811. (*Sir Maneckji Dadabhoy.*) I think, Sir, the witness made it clear in his answers to you that he did put a limit on the legal tender of the rupee.

2812. (*Chairman*). I am not quite clear whether he was answering them on the basis of a limited legal tender of the rupee or not. Which were you assuming in your answer?—If there is unlimited legal rupee tender, then there will be no increase in the demand for gold for hoarding on account of the establishment of a gold standard. But if the rupee is made limited legal tender there will be to a certain extent—to what extent I cannot say—an increase in the demand for gold; but it will not be so very heavy as to make the establishment of a gold standard an impossibility in this country.

2813. (*Sir Maneckji Dadabhoy.*) One little further information: in discussing the gold standard and the gold exchange standard, you say in paragraph 2 that the gold exchange standard has been thoroughly discredited by events and then you go on to discuss that question. I would like to know whether this gold standard has failed on account of its intrinsic imperfections or because it has been badly and incorrectly managed?

2814. (*Chairman.*) Might we keep that question for just a little later period in the examination, because I think it would come more easily to the witness to answer it a little later?

2815. (*Sir Henry Strakosch.*) I should like to ask the Professor why he considers that the introduction of the gold standard with gold in circulation in this country would make it easier to maintain the exchange value of the rupee?—My position is just this, that if people believed that a gold standard has been established in the country the banking development of the country will take place on that basis, that is a country is on a gold basis and rupees and currency notes can be converted into gold. Now, as in other countries, banks are doing a great deal of the exchange business and can to a certain extent help in the maintenance of a rate of exchange, here also the banks will be able to perform that function, knowing that the country is on a gold basis.

2816. But would you regard gold in circulation in the pockets of the people as a valuable reserve to stabilise the external value of the rupee?—That I would not; but I should think that gold in the bank

reserve and the currency reserve will certainly be utilised for supporting exchange.

2817. I see. You also mentioned that you do not expect a large amount of gold to enter into active circulation?—Yes, into active circulation.

2818. Therefore, you are relying on the banking reserves and currency reserves for the maintenance of the exchange value of the rupee under the gold standard system with gold in circulation?—Yes, to a certain extent on banking reserves but also, as I point out later on, upon investing a portion of the currency reserve.

2819. To what extent does that differ from a gold exchange standard system in regard to the maintenance of exchange at gold par?—For the present we depend only upon the gold standard reserve and the currency reserve. Then we will have gold in the banking reserve of the country here, and that can supplement to a certain extent the process of maintenance.

2820. Would you say it is wrong that the amount of reserves in the currency reserve and in the banking reserve would have to be smaller under an effective gold standard with gold in circulation as compared with a gold exchange standard?—May I request you to repeat that question?

2821. Would you regard the amount of gold reserves held for currency and banking purposes under the gold standard would be smaller than under the gold exchange standard?—As I believe that under the gold standard the amount of gold in circulation will not be very large, the establishment of a gold standard will not affect the amount of gold in the currency and banking reserves to any appreciable extent.

2822. You said that you would be advocating a gold standard with gold in circulation provided it does not cause damage to India's economic life?—It would not cause any damage, but people will not be prepared to use it as it is unsuitable for every-day life.

2823. Perhaps I ought to explain more clearly what I meant. You say that you would be advocating a gold standard if the introduction of the gold standard does not produce reactions on India which may be detrimental to the country. I have in mind this, that the introduction of a large amount of gold from the stock of gold money which exists in the world might possibly have an influence on prices which would naturally and automatically react upon prices in India. Have you thought what the reactions might be?—Do I understand you aright when I say that you want me to tell you whether the introduction of a gold standard will dislocate the economic life of the country to an appreciable extent?

2824. Yes?—When the time is ripe for it I do not anticipate any serious inconvenience.

2825. You do not therefore believe that the diversion of a very substantial amount of gold from the stock of gold money in the world will have any effect upon prices?—Diversion from the use in other countries to use in India, that is what you mean?

2826. Yes?—The influx of gold into India on account of the establishment of a gold standard will not increase very much and therefore the world need not be afraid of India upsetting their economic life on account of the establishment of a gold standard; but even if it does cause a certain amount of inconvenience and appreciation of money on account of the increased demand for gold I would not postpone the establishment of gold standard in this country on account of a possible appreciation of money in the countries of the world.

2827. But may I put this to you? You said that you would advocate the introduction of the gold standard when there was accumulated sufficient gold to cover the rupee circulation and note circulation by 50 per cent. and that you had taken the rupee circulation to be 200 crores which would not include any gold that might go into hoards in substitution for silver for the present silver hoards. The total amount of gold called for under your system merely to cover 50 per cent. of the rupees and notes would, I reckon, be in the neighbourhood of 180 crores?—Yes, that is the amount.

2828. To which has to be added the amount that might conceivably go into the hoards in replacement of silver?—Well, as I have made it quite clear already, I don't expect much to go into hoards on account of the establishment of the gold standard.

2829. Would you say that 20 crores might conceivably go into hoards?—We can take that amount, just for supposition.

2830. Then we have a total requirement of gold for this country, the main portion of which would not be available, I take it, for currency purposes in the proper sense, of 200 crores. How much gold have we now available?—We have got about 22 crores I believe in the paper currency reserve, havn't we? Then as regards the process of introduction of the gold standard into India, I mean, we need not introduce the gold standard at once. We can gradually convert our securities into gold and if we want to, we can also convert our silver rupees into gold and thereby accumulate a stock of gold without causing serious inconvenience to the gold market of the world.

2831. But it is true to say that if we did introduce the gold standard to-day, the requirements would be 200 crores, less 22 crores?—Yes, about 180 crores.

2832. Roughly 180 crores. You don't think that the withdrawal of 180 crores, even if spread over a period of, say, five years, would have any appreciable effect upon the gold price?—There is a lot of gold lying in America which she could easily get rid of to her benefit and to the benefit of the world. Well, we could get hold of that gold, we can establish the gold standard, and the world won't be the worse off on that account.

2833. (*Mr. Preston.*) I think some few moments ago in reply to a question from the Chairman, you stated that some years ago Government allowed gold to go out in return for notes and silver sent in and you said that that gold shortly afterwards returned to currency. Is that a fact?—Yes, that is a fact.

2834. Now, as illustrating my point, I would just like to ask you this question. During the crisis (I am now quoting official figures)—during the crisis of 1907-8 while £4,179,000 in gold was withdrawn by the public from the paper currency reserve, only £250,000 was exported on private account, and the balance all went into hoards. Would that alter your reply to the Chairman?—I do not catch your point. May I request you to put it again.

2835. I will repeat it perhaps in a simpler form. You said, some years ago gold was applied for from the paper currency reserve, was given out, the takers of the gold had no use for it and returned it back to the paper currency?—Yes. That is a fact.

2836. I am now quoting from an official document?—I suppose from the Chamberlain Commission's Report.

2837. Yes, this is from the Report of the Commission. This fact is borne out by the official records. "During the crisis of 1907-8 (that was the American crisis—and this was done under, I think I am correct in saying, a sort of compulsion almost, at any rate, pressure) while £4,179,000 in gold was withdrawn in India by the public from the paper currency reserve, only £250,000 of that amount was exported on private account and the balance was all sent into hoards." Will that alter your first reply?—Do I take you to mean that you want me to tell you whether, if people have got gold, they will make it available for international payment?

2838. No; you said at first, briefly, that gold was taken out, that it was found not to be wanted and was sent back. This document says that 4 million pounds was taken out and vanished?—Yes, it did go into hoards.

2839. (*Sir Reginald Mant.*) Professor, I understood you to say in reply to the Chairman that you didn't

think there is or will be any general desire on the part of the people who have hoards of silver to convert those hoards into gold?—Yes, the desire should not increase on account of the establishment of the gold standard.

2840. But didn't you say there is not any great desire at present? Do you think there is at present a tendency to exchange the silver hoards into gold?—Well, they are keeping as much gold as they can or want to in hoards and the amount of silver rupees that are in hoards are likely to remain in hoards even if you establish the gold standard.

2841. Then the people are not at present changing their silver rupees into gold? Is that your position?—The amount of gold that we are importing shows that to a certain extent that is being done.

2842. That is what I want to elucidate?—What I mean is that the people can, even if you do not establish the gold standard, they can continue to convert their silver rupees into gold without limitation and there is no reason why the establishment of the gold standard should make them more eager to do so.

2843. Quite so. I see that point. But what I wanted to clear up is whether you think that people are at present converting their silver hoards into gold. You referred to the very large imports of gold last year, somewhere in the neighbourhood of 73 crores, and you said that that gold went into hoards. Now I ask you whether you think that was in addition to the previous hoards or whether it was to a large extent in substitution for silver?—Well, it is very difficult to make a definite statement on that point. But my own belief is that the increased demand for gold is due to good harvests and the cheapness of gold. Gold is comparatively cheaper, and people are demanding gold not because they want their silver hoards in gold but because they want to put by money in that form.

2844. But do you think they could put by in one year an additional amount of 73 crores?—The entire amount is not additional. We had been importing a considerable amount before. Our pre-war average was 31 crores. Now this 40 crores, with good harvests and a decreased demand for imports, is not a very large figure to put by out of annual savings.

2845. You think then that the aggregate amount of hoards last year was increased by 40 crores of rupees?—Well, I take these three factors into account; the first is a good harvest, the second is a decreased demand for imports and the third is the cheapness of gold. Taking all these three things together, I do think that the additional gold which has been imported is due to annual savings and not due to the conversion of silver rupees into gold. To a certain extent silver rupees may have been converted into gold, but generally speaking, I should say, it is out of the annual income that this gold has been purchased.

2846. (*Sir Purshotamdas Thakurdas.*) Professor Gyan Chand, you refer to the rather phenomenal figure of 73 crores of gold imported last year and you thereby indicate that the tendency to hoard has not decreased. Don't you think that it would be more correct, in order to arrive at a conclusion, to strike an average for 5 or 10 years? Would you go only by the figure of one year to find out whether the habit has been on the increase or whether it is only a bringing up of the average after the deficit that may have prevailed in previous years?—I would take the average as the better index.

2847. You would, wouldn't you? Now you yourself said that the pre-war figure for imports of gold was about 31 crores?—Yes, it was that amount.

2848. If with this figure of 73 crores from the year 1914-15 to the year 1924-25, the average per year should work out to 16 crores, what would you say? I mean would you not say that the 73 crores should not be looked upon as a phenomenal figure but should be looked upon as a figure which helps to make up the vacuum which existed in India of the gold requirements of the people for ornaments or for hoards, and that the 73 crores figure should not be made much of?—I would not make much of it, but at the same time I would say that the fact that out of the income of the people they are prepared to invest 73 crores in a year shows that they are still addicted to gold, that they want to get hold of as much gold as they can.

2849. Now they are only making up to the average, whether it is out of the currency or out of what they didn't buy in past years—but you will admit that, with this figure of 73 crores of last year, India has not taken more than what she took before the war?—On the average she has not.

2850. If the pre-war years show an average of 31 crores or 28·82 as the official figure has it and if with this figure of 73 crores the average for 10 years, works out to 16 crores, would you say that she has taken more?—No, I would not say that.

2851. Regarding the question of the total requirements of India for gold a certain proportion of the quantity which is imported must be used for genuine requirements such as ornaments, just like people in any other part of the world do?—Yes, a very large proportion is used for ornaments.

2851A. Would you mind saying what is the proportion which should be allowed for genuine requirements such as ornaments, etc., and what percentage should be looked upon as the amount for hoards?—It will be merely guess work, but I will say 50 per cent.

2852. Half and half?—At least.

2853. If the total quantity of gold taken on an average by India before the war works out to India's genuine proportion of the total production of gold in the world compared with the population of the world, namely, India's population as one-fifth and she takes one-fifth of the total gold production, do you think that any part of the world has any right to complain?—No part of the world has any right to complain that India chooses to take gold. It is our own concern.

2854. Excuse me. That is another point. Going on proportions and going on the share due to India as forming one-fifth of the total population of the world, would not India be entitled to one-fifth of the total production of gold if she took only that?—I would not go on the population basis. I would take the real purchasing power of the country, and that is not one-fifth of the total purchasing power of the world.

2855. Then what would you go on that would enable us to come to the excess that you think India takes?—Well, I will have to take an economic survey of the whole world.

2856. Have you struck upon any figure like that?—It is very difficult. We don't know how much India produces, not to say the world.

2857. But if you went on a population basis and if India took her share of the total production, then taking that basis to be granted for argument's sake, India does not look like being the sink of the gold in the world?—That she does not. But as I have pointed out, the population basis is not the correct basis.

2858. Until we find out some other basis, we cannot arrive at data?—No.

2859. (*Sir Alexander Murray.*) You were answering Sir Purshotamdas just on the assumption that his figures were correct?—Yes.

2860. And if they are not correct, that would probably alter your conclusion?—But there is not the slightest doubt about it that India did not get her due share during the war and the fact remains that part of the demand is due to the deficiency during the last few years.

2861. (*Sir Purshotamdas Thakurdas.*) May I, Sir, on this point, give my figures to Professor Gyan Chand and ask him to confirm them?

2862. (*Chairman.*) These are the figures of the import of gold on private account. What would the

question to Professor Gyan Chand be? He, of course, cannot tell us whether he considers the official figures have been accurately based or are inaccurate.

2863. (*Sir Purshotamdas Thakurdas.*) No, but whether the rough calculation which I have given is inaccurate or not?

2864. (*Chairman.*) Certainly, if you will give him the calculation.

2865. (*Sir Alexander Murray.*) I think Sir Purshotamdas is quoting imports on private account only and he has overlooked the fact that there were Government imports which were actually put into circulation. The actual consumption does not compare with these figures that have been given at all.

2866. (*Sir Purshotamdas Thakurdas.*) I am quite prepared to let Professor Gyan Chand add any supplementary figures that Sir Alexander Murray may be pleased to give.

2867. (*Chairman.*) One moment. Is not this a matter which we could really clear up best amongst ourselves, or do you think Professor Gyan Chand has special knowledge?

2868. (*Sir Purshotamdas Thakurdas.*) I submit, Sir, that if this is a matter which we should not discuss here, Sir Alexander Murray should not have put the question he did whether the witness's conclusion would vary in proportion to the correctness of my figures, and I think it is due to me and to Professor Gyan Chand that the point should be cleared up. What I said is always subject to correction by Sir Alexander Murray.

2869. (*Chairman.*) Let us put the figures to Professor Gyan Chand and see what he says.

2870. (*Sir Purshotamdas Thakurdas.*) If you will oblige me by taking the figures down—

Imports of gold in—

	Lakhs.
1924-25	73,78
1923-24	29,19
1922-23	41,18
1921-22	—2,79
1920-21	—8,88
1919-20	10,97
1918-19	2,00
1917-18	21,46
1916-17	4,20
1915-16	4,90
1914-15	8,45

—I am not very good at figures, so some allowance must be made for mistakes. I think it works out to 17 crores.

2871. (*Sir Purshotamdas Thakurdas.*) Did I not say 16 crores. Sir Alexander will now supplement the above with figures for imports on Government account.

2872. (*Sir Alexander Murray.*) All I wish to point out to Sir Purshotamdas is that the figures he is giving are the figures of private imports and they do not include the Government imports much of which were actually put into circulation by Government by these sales and by the minting of gold mohurs,—that is by the sales of gold made by Government, gold coin, sovereigns and also gold mohurs. And as a matter of fact, if you will turn to Appendix III (you have been quoting from Appendix II to the historical memorandum) you will see that the figures cannot possibly be complete because, taking the year 1918-19 you say that there were only on private account imported 2 lakhs of gold coin and bullion, but as a matter of fact in 1918-19 there were Rs. 521 lakhs absorbed in sovereigns and half-sovereigns alone. And in addition to that, there were 60 lakhs of gold mohurs taken. Then, if you come down to the years 1921-22, you say that there was actually net exports of gold coin and bullion, but if you look at the corresponding figures for the total absorption you will find that there were 278 lakhs in 1921-22 and 943 lakhs in 1922-23 taken in the form of gold coin alone.

2873. (*Sir Purshotamdas Thakurdas.*) Quite correct. But I thought that you were now giving your figures to complete the statement. That is what I expect that you are going to do. Now, we will add and supplement the figures in Appendix III, and let us see whether the figures that I gave Professor Gyan Chand were misleading or not?

2874. (*Chairman.*) I think we must confine our questions to such a form as can be put to the witness. Sir Purshotamdas, can you put any further elucidatory question on the point with which you have been dealing in a form in which the witness can enlighten us; and then possibly if Sir Alexander Murray has any further elucidatory question he will put it in the same form.

2875. (*Sir Purshotamdas Thakurdas.*) Professor Gyan Chand, Sir Alexander Murray has expressed a doubt regarding the figures I have given. Do the figures I gave appear to you to work out to 16 crores as the average consumption of gold by India for the years mentioned?—Well, any other figures that might have been added would not have raised the amount above 20 crores, and the point will remain that India has been starved during the war years and that she is trying to make up the deficiency now.

2876. Therefore if any supplement is to be given, it is to be given by any person who wishes to bring the aggregate up?—But that won't affect the validity of the point.

2877. That is clear as far as I am concerned. The total net import of gold coin and bullion during the period 1914-15 to 1924-25 is given as under in official papers put before the Commission:—

Private account	Rs.	182,48 lakhs.	
Government account (1924-25 figures being for 11 months).	,,	43,57 ,,	
Total	,,	226,05	for eleven years.
Average per year	,,	20,55 lakhs.	

2878. (*Sir Norcot Warren.*) With regard to these hidden hoards of coin and ornaments, what proportion would you say was held by the sowcars and the chetti community as securities for loans given to the people?—It is really very difficult to answer that question.

2879. Would you say a third?—I would not hazard any guess.

2880. Would you agree it is a third?—I would not say anything on the point.

2881. Is it not a considerable amount?—You see it is very difficult to be positive on that point because it requires careful investigation of the actual conditions. The amount held by the depressed classes from the chetti community is really incalculable under present circumstances.

2882. (*Chairman.*) Now I am going on to another aspect. Should I be fair in summarising your introductory analysis as to the working of the pre-war exchange standard and your comments upon criticisms made upon that standard in the phrase that, in your opinion, before the war the exchange standard system was not given a fair chance, and that such adverse circumstances as occurred were due rather to a misunderstanding or unskilful use of the exchange standard than to any inherent defects in the system itself?—I would not question the efficiency of the Government of India, but what I would say is that they drifted into a position the full consequences of which they failed to understand, and therefore one cannot condemn the exchange standard merely because on two occasions—in 1907 and then again in 1914—they allowed the rate of exchange to fall below the gold point. They did not quite understand what the gold exchange standard meant. It was the Babington-Smith Committee that recommended that Government should sell reverse councils without any limit. If you have effective gold exchange standard there need be no doubt on that point that the Government is prepared to sell reverse council bills to meet the requirements of trade, and there should be no limit on the amount.

2883. Nevertheless, as I follow out the reasoning of your memorandum, I find, do I not, that you do not recommend any effort to re-establish now an improved exchange standard?—I have two reasons for it.

2884. That is the proper interpretation of your recommendation, is it not? You do not recommend the introduction of an exchange standard, even an improved exchange standard?—Unless we can have some measure of international co-operation.

2885. What is your reason for that?—In the first place, it is very difficult to choose the rate for the time being at which the rupee can be stabilised. In the second place, the world prices are fluctuating, and if the exchange standard is to work well, the prices should be stable on both sides—comparatively stable in India and comparatively stable in the other countries of the world. Well, I do not see any likelihood of prices becoming stable for a long time to come, and therefore I am not in favour of an exchange standard being established in this country.

2886. Do you think it will ever be possible to achieve stability of prices?—Not absolute stability of prices, but comparative stability of prices should certainly be attainable; and if the world knows its own interests, it ought to take measures to stabilise prices as soon as possible.

2887. Do you see any features in the present situation such as would lead you to expect in the foreseeable future any sharp change in price levels?—In the first place we have got to take into account the possibility of a cheap money campaign in America. America is liable to these fits, and one does not know whethor the Federal Reserve Board will not submit to political pressure and we may then have a cheap money campaign in that country. Then we should take into account the fact that France has got to stabilise her currency system yet, and Italy has got to do it. In Sweden prices are very high, in Japan prices are very high, and England is the only country and also the United States which have fairly stable prices, and one does not know what is going to happen there. In America, certainly, one does not know, and in England also high prices would not be absolutely inconceivable; and, therefore, for the time being I cannot anticipate a stable level of prices in the different countries of the world.

2888. You refer to the possibility of a cheap money campaign in America. We know, do we not, that any country can always inflate at any time if it pleases?—Yes. I understood you to ask me whether there is likely to be any sharp rise or fall in prices in the near future?

2889. Recognising that any country can inflate at any time that it pleases, what leads you to expect a greater danger of a sharp inflation in America at the present time than the normal danger that you always have?—Well, the conditions are abnormal, and therefore a normal danger becomes abnormal under abnormal conditions.

2890. What is there abnormal in the present conditions in America which might make it more probable that we shall see an inflation?—The accumulation of a great stock of gold is immense. The Federal Reserve Board has been practically sitting upon gold all these years, and if she thinks it worth while to change its policy there will be a very great inflation in America and a sympathetic increase in prices in other countries of the world.

2891. But if you want to inflate, you can inflate whatever your stock of gold is, can you not?—But the possession of a large stock of gold is a great temptation. The likelihood is greater when there is a very great quantity of stock.

2892. Let me put this view to you just to see whether it makes any difference to your opinion. A large stock of gold, it might be said, may force a certain measure of inflation until you have learnt how to control it, or, in popular words, to sterilise it, but once you have learnt how to sterilise a large stock of gold and to maintain your prices stable in spite of your stock being abnormally big, why should there be any temptation to inflate in the mere possession of a stock?—The world has not learnt to sterilise gold yet. That is what I would say in answer.

2893. Let me ask you a final question just to test that. If the world at large has not learnt to do so, has not the experience of the last two or three years shown that the financial and monetary authorities of the United States have learnt how to do so?—In the last report of the Federal Reserve Board they definitely disavow any intention of bottling up gold in order to stabilise prices, and they make a definite statement that the present state of knowledge—I mean they say we do not know enough to indicate anything as to their action. That is their definite opinion which they express in the last report of the Federal Reserve Board.

2894. I understand you to feel apprehensions about the stability of sterling currency?—I do not feel any apprehension regarding the depreciation of sterling in terms of gold, but there is a possibility of a general depreciation of sterling, though I would not say likelihood—a general depreciation in terms of commodities, a rise of prices in England.

2895. What leads you to foresee that? I acknowledge the great difficulty of foreseeing such a movement, but what are the factors in your mind?—One factor in my mind is that the upward movement has begun. The trade has turned a particular point and now we are going to have an upward movement of prices. For a long number of years, from 1920, I should think, to 1924 prices have been falling, and if the trade cycles mean anything, the prices should rise in the next four or five years, and the experience of a large number of years shows that that is inevitable—unless the Bank of England listens to Professor Keynes and adjusts its discount policy with a view to stabilise prices.

2896. Do you see any reason to suppose that the circumstances to which you refer, such as might cause a rise, are not world-wide?—By circumstances you mean the abnormal movement of prices?

2897. Yes, why should it be local in sterling-using countries rather than world-wide?—That would strengthon my point that prices are not likely to be stable for some time to come.

2898. Is it your opinion that it is likely to be local in sterling-using countries, or is it rather your opinion that the rise to which you refer is likely to be world-wide?—The rise may be very widespread, but the extent of the rise will be different in different countries owing to the different currency policies pursued by the authorities.

2899. And those conditions to which you refer are, in your opinion, likely to be more sharp, or more sudden, or more extreme than those fluctuations which are the normal state of the world at any time, however normal?—Well, there is a very close connection between the economic life and the currency system of a country, and as I am not quite sure whether the economic life of peoples is going to be stable in the next few years, there is a possibility of the fluctuations of prices being wider than they otherwise would be.

2900. I would like to ask whether you have in mind any other factors of economic instability than those to which you have already referred?—In the first place, you are having a great deal of economic or labour discontent in various countries of the world. The export and import trade has not settled down to its normal level. The conditions of reciprocal demand are quite uncertain; and therefore, apart from the fact that prices are likely to rise on account of trade cycles, the economic conditions of the world make the possibility of stabilisation more extreme, more unlikely.

2901. And for these reasons you are of opinion that the time has not come to attempt to fix a stabilised ratio for the rupee?—Of any currency, as a matter

of fact, unless a country has got a large stock of gold like America.

2902. To complete the picture, I think that, in the course of your memorandum, you express an opinion as to the selection of a higher rate than the one at present current or a lower rate than the rate at present current; you express an opinion as to what rates would be the best rates to choose, supposing that you were fixing them?—Unless I have expressed myself very inadequately, I do not mean to suggest any rate, high or low.

2903. I quite understand that you are against the adoption of any rate at the present time, but this is the sentence which I had in mind: "The arguments set forth in the foregoing paragraph (paragraph 11) only lead to a negative conclusion, that there is no necessity or obligation of adopting the 1s. 4d. ratio as the basis of our currency system." Your view there is quite consistent, but I understand that your arguments on the subject of this rate or that rate, 1s. 4d. or 1s. 6d., are directed only to showing that there is no obligation to establish one rate rather than another when you come to the time at which this rate can finally be established?—The point which I am driving at is this. Suppose that we have got to choose between 1s. 6d. and 1s. 4d. I want to point out that neither the one nor the other is a suitable rate for adopting just now. There are no reasons why the 1s. 4d. rate should be adopted, but on the same ground there is no reason why the 1s. 6d. rate should be adopted Both are equally unsuitable from that point of view.

2904. Your argument develops itself towards destroying the case for the immediate establishment of any rate, whether 1s. 4d. or 1s. 6d. or anything else?—That is the object which I have in view.

2905. (*Sir Henry Strakosch.*) You said that you would not advocate the adoption of a gold exchange standard until such time as international co-operation has been established?—Certain measures of international co-operation.

2906. I wanted to ask you what measures of international co-operation you have in mind?—A firm determination on the part of the various authorities to limit the fluctuations of prices and to support exchange by converting the currency of one country into the currency of another country through the instrumentality of a regulatory authority.

2907. An international authority or a national authority?—The international authority will have to take charge of the stock of gold. The gold will be probably deposited with the international authority, certain international authorities as recommended by the Genoa Conference. But the conversion of one currency into another currency can be brought about by the regulatory authorities in the countries concerned.

2908. But would you not think that a condition precedent to such international agreement is that the countries desiring to adhere to an international agreement should have adopted a gold or gold exchange standard?—Well, they should have adopted the currency which is fairly stable and establish conditions favourable for the establishment of a stable standard. But I should not say that they should adopt a gold exchange standard or a gold standard.

2909. Which standard do you regard as the one most likely to lead to stability, a managed standard or one that is hitched to gold?—I am in favour of the regulation of the currency system.

2910. By management?—By a regulatory authority.

2911. And that is not to be based upon gold at all?—If we have international co-operation, we can certainly do away with gold.

2912. But do you think it is a practical proposition to contemplate an international agreement on the basis of a managed currency system, when a very large proportion of the civilised world has already been or is in the process of adopting the gold or gold exchange standard?—The civilised world still does not seem to have made up its mind. England and America have adopted gold standard, but there are other countries which have still to find a level as far as their currency system is concerned. All the same, I would express this opinion, that international co-operation will be facilitated if each country has got a stable standard, a standard which is likely to inspire national confidence. But as the question is not of very practical importance, I do not think it is worth while pursuing it further.

2913. But, Professor, you said that a condition precedent would be the introduction of a standard in a great number of countries which inspires confidence. I may take it that you will agree that the world opinion to-day is in favour of a standard which is hitched to gold in one form or another? It has not reached the stage where it would prefer a purely managed currency. If that is so, do not you think that the wider the area over which the gold standard is introduced, the easier it will be to bring about international co-operation in the sense of the Genoa resolutions?—The introduction of a gold standard certainly will make matters easier.

2914. Yes, and you are aware that during the last few years quite a number of countries which have had very disorganised currency systems have finally succeeded in stabilising their currencies on gold? I am referring to Germany, Austria, Hungary and some other countries?—Yes.

2915. If every one of those countries had taken up the attitude that you suggest, of waiting until an international agreement had been reached, when do you think the world would reach stability?—India is not in the same position as Germany and Austria. Conditions were peculiar there and things had got to be done in a particular way, while India is fairly well off and can afford to wait.

2916. But would you not admit that if India by a heroic step were to say "I will adhere to a gold or exchange standard" and by that process widen the area which embraces the gold standard, you would be helping forward an international agreement very materially?—The prospect of an international agreement is so very remote and I do not think it is worth while to risk anything of that kind.

2917. But would you not say in view of the fact that the world has very largely adopted some form of gold standard, that it is worth while, in order to impart greater stability to prices, to run the risk and also embrace that standard?—And possibly take a very rash step.

2918. You regard it as a rash step?—Possibly; I do not say certainly. But in the selection of rate we are likely to commit serious mistakes.

2919. May I infer from that that you think it far safer for India to adopt a managed currency system? Do you prefer that to the adoption of a system hitched to gold?—The system that I recommend will not be managed in the same way in which the gold exchange standard was managed. There will be free expansion of currency. The paper currency will be circulated in the same way as it now circulated. Exchange will take care of itself and there will be no element of greater instability on account of waiting upon events.

2920. But you do not suggest that the standard should be one which is linked with gold?—Just now, immediately.

2921. Your end and aim would be a gold standard?—Yes, gold standard.

2922. But would you make it a condition that the gold standard should not be adopted in India until an international agreement has been reached?—That I would not. I will not insist on international agreement for the establishment of gold standard but I will insist on it for the establishment of gold exchange standard.

2923. I do not quite see the difference; why should you wish to wait in the one case and not in the other?—A successful working of gold exchange standard requires stabilisation in different countries

of the world and as the stabilisation is not likely to be achieved without international agreement, gold exchange standard should not be introduced in this country unless we have got some measure of international agreement.

2924. Have you in mind the fluctuation in the gold prices of the world?—Fluctuations in the gold prices certainly.

2925. I cannot quite see the difference between the gold standard and the gold exchange standard. How will the gold standard free you from the influence of fluctuations in gold prices and not the gold exchange standard?—Gold standard will not free us from the fluctuations in prices; but gold standard does not require that measure of stabilisation which gold exchange standard does.

2926. May I ask what are you afraid of? Are you afraid of the fluctuation in gold prices or what else are you afraid of?—I am afraid of the recurrence of what happened during the war. Our rate of exchange was fixed, sterling prices were rising, our prices had got to rise because sterling prices were rising and we had to inflate our currency on account of an inflation in England.

2927. If you adopted a gold standard you would not be free from that danger?—But our rate of exchange will rise. The currencies of other countries will depreciate in terms of gold. But if we establish exchange standard, we will be keeping our rate of exchange fixed in spite of the fact that the prices were rising.

2928. I am very sorry but I cannot follow the argument, that in one case you would be free from the influence of the movement of world gold prices and in the other you would not?—If you have got gold standard our rate of exchange with the different countries of the world will not be fixed, if other countries are inflating their currency. Their currency will depreciate in terms of our currency. But under gold exchange standard we will have to keep a fixed rate of exchange in spite of the fact that there is unstability elsewhere.

2929. But would you not have to have a fixed rate of exchange if India adopted a gold standard in relation to other gold standard countries?—Fixed rate between gold and gold, but not between gold and other currencies of the world.

2930. (*Chairman.*) I am not quite sure that the Professor by saying gold exchange standard does not mean sterling exchange standard?—I mean gold exchange standard. I take it that gold and sterling are going to be interconvertible in the future and therefore whether we have gold exchange standard or sterling exchange standard, there would not be any difference. But the point is that those currencies of countries in which prices are moving violently will have a fixed rate of exchange with India on account of the establishment of exchange standard.

2931. (*Sir Henry Strakosch.*) I don't see that after all we have to deal with world gold prices. If India adopted a gold standard with a gold circulation, India's prices would naturally have to follow world gold prices?—Certainly.

2932. And therefore India would be subject to the fluctuations to which gold prices are subject in the world?—You see very well that if we have got gold exchange standard, if India has got a favourable balance of trade, gold does not flow into this country and therefore other countries do not feel the pressure of unfavourable balance of trade which they would feel if India had a gold standard and gold had to flow into the country instead of remaining outside.

2933. In which case you would be accumulating reserves in the form of gold abroad?—Gold abroad, keep our gold in foreign countries.

2934. Or if you like, in India?—If you are prepared to import gold and bring about an inward movement, I think the result will almost be the same. But if you are going to keep gold elsewhere——

2935. I do not suggest that?—Or invest the gold in foreign countries in the way in which we have been doing during the last few years, then a favourable balance of trade will not effect monetary systems of other countries on account of influx of gold into this country.

2936. (*Sir Maneckji Dadabhoy.*) You stated that at present you are not inclined to fix exchange either at 1s. 4d., or at 1s. 6d. I understand that this is due to the fact that in either case it would be merely a speculative adjustment in view of the present conditions. Is that your idea?—Yes; it will be more or less guesswork, I mean the selection of the rate.

2937. The selection of the rate would be more or less guesswork and it would be an artificial adjustment without anything to back it up, without any proper foundation?—Yes.

2938. Then will not this state of things continue as long as the prices in India and elsewhere are constantly changing?—I am not thinking of the prices. I am thinking of the economic conditions of the world being in a state of flux; and as long as the conditions continue, certainly the choosing of the rate will be a difficult affair.

2939. But would it be right to postpone the determination of the rate in India because the world economic conditions are not certain?—When you have got to bring about a nice adjustment with constantly changing conditions, it is desirable to have a fluctuating rate of exchange rather than a fixed rate of exchange because that enables you to adjust your conditions more rapidly to the world conditions.

2940. You prefer, during the period of economic world disturbances, that the conditions should fluctuate instead of being stabilised?—The rate of exchange should fluctuate in order that economic conditions in India may be adjusted to the world conditions.

2941. Would it eventually profit India?—It would eventually profit India because it will enable her to steer her course with a certain amount of intelligence. If she fixes the rate of exchange, she does not know where she stands.

2942. Can you anticipate any fall or revival in trade with fluctuating exchange?—I do not anticipate any continuance of the depression in exchange.

2943. I would like you to give me a positive reply and not a negative reply; would it inspire confidence in trade with a fluctuation?—If other conditions are favourable, the fluctuating rate of exchange will not matter.

2944. What are those other conditions?—The other conditions are, good production inside the country and good demand outside the country, or an increase in the real purchasing power in India and a large demand for Indian goods elsewhere.

2945. Large demands for Indian goods?—Yes.

2946. You were speaking of international agreement. Is it within the range of practical politics to have such an international agreement?—It is because that it is not within the range of practical politics that I reject the gold exchange standard.

2947. And unless that is possible you are against the recommendation of the exchange standard?—I would qualify that statement by saying that I believe an international agreement is not possible and therefore the gold exchange standard should not be introduced in this country.

2948. And therefore we should work up gradually to a gold standard?—Yes, that is definitely my opinion.

2949. (*Sir Purshotamdas Thakurdas.*) I understand that the state of international conditions which might have inspired confidence in Great Britain to return to the pre-war ratio does not commend itself to you, nor does it inspire any confidence in you as far as the fixing of an Indian rate of exchange is concerned?—I do not see any reason why 1s. 4d. should be selected.

2950. Excuse me, I am not talking now of 1s. 6d., or 1s. 4d., or any rate at all but the fact of

stabilisation. The rupee you recommend should not be stabilised because of world conditions. Now Great Britain has come to the gold point and you do not think that Great Britain could have taken adequate notice of international conditions and world conditions before she made up her mind?—Great Britain was in a position to do so; but when I speak of the conditions being unsuitable I am not only talking of the currency system, as I made it quite clear, but I am talking of economic conditions generally.

2951. Great Britain must have taken cognizance of that also?—She did.

2952. And that is not good enough for India to go on?—Well, England had got to work up to the pre-war rate by merely establishing a gold standard. On account of the international situation she could do it. She is a greater country; her banking system is very good, and for other reasons she is in a position to establish a gold standard which India is not; and therefore the risks which England could take lightly could not be taken lightly by India.

2953. Could you point out the difference between the risk that England has taken and the risk India would take by stabilising the rupee?—Well, England found, on account of a certain conjunction of events, when the sterling dollar rate was rising and when she was within the pre-war parity point, she could take the step of establishing a gold standard, at the same time making sure that gold would not get into internal circulation. Well, that step they had to take in order to safeguard against a possible demand for gold for internal purposes. Their main object was to establish a stable rate of exchange. Well, in India you have got to select a rate. You have an internal currency which is metallic. Its intrinsic value is fairly high. You have got to take into account its internal value in order to select the rate of exchange. In England they have not; they are making use of paper. Whether it was high or low did not matter for them. It does matter for us. Then the relation of internal prices with world prices has got to be taken into account. The rate which it is desirable to maintain between Indian prices and world prices is bound to be different from the rate which is desirable in order to keep the rupee a token coin. The divergence between these two is a matter of great importance, the full significance of which is not always appreciated.

2954. And you think this divergence ought to make everybody cautious before going on to stabilise the rupee?—That is one point; there are others.

2955. That is the most important, I take it?—One point of considerable importance.

2956. Is there any other of equal importance?—Well, another is that Indian economic life is very precarious. It is possible that after 4 years of good harvests, in the next year we shall have two bad ones in succession. If that contingency occurs any attempt to establish a gold exchange standard or a gold standard is bound to be defeated.

2957. That is until India has had 2 or 3 bad years you would not stabilise. If India has another couple of good years you would still wait for a couple of bad years in order to find out how the currency would work. I am asking you whether that would be one of the grounds, whether that would be one of the periods at which to think of stabilisation, when India has had experience of a poor monsoon?—Yes, India's balance of trade for the next few years will matter but that will not be the deciding factor. Certainly if our balance of trade continues to be favourable we ought to be more inclined to stabilise the rupee than otherwise.

2958. Now, in the interval when there is no stabilisation, the remittance of money to the Secretary of State and the remittance of money for Home Charges should continue to be carried on as at present by the Finance Department of the Government of India?—On the advice of the National Currency Board.

2959. Would you have that immediately?—Yes, immediately of course.

2960. (*Sir Purshotamdas Thakurdas.*) You recommend the formation of a National Currency Board. Am I correct in understanding that the Board would guide the operations of the Government of India for remitting money?

2961. (*Chairman.*) Shall we take that a little later, Sir Purshotamdas, unless it is very intimately linked with your argument? I think it is rather opening out a matter which we might deal with separately.

2962. (*Sir Purshotamdas Thakurdas.*) I can wait. I have no more questions to ask now, Sir.

2963. (*Sir Reginald Mant.*) Professor Gyan Chand, I understand that during the intervening period before we stabilise exchange you would aim at securing stability of prices in India, letting exchange vary. Is not that your position?—The fluctuating rate of exchange will decrease the amount of fluctuation in prices in India but it would not stabilise prices. We have no means of stabilising internal prices for the country; but it would make the fluctuation of prices in India less violent.

2964. It would be a steadying factor?—To a certain extent.

2965. I do not quite understand how you would provide for the expansion or contraction of the currency during this period. You would have no expansion or contraction?—I definitely provide for expansion and contraction.

2966. (*Sir Reginald Mant.*) I would like you to explain what your method would be.

2967. (*Chairman.*) That is the scheme which the Professor outlines, is it not, for the free coinage of silver?—Varying directly with the rate of exchange and inversely to the gold price of silver.

2968. (*Sir Reginald Mant.*) Have you considered the largo accumulations of silver in the currency reserve. While we have that amount of surplus silver, would you provide for fresh coinage of silver?—If we could reduce that amount without endangering the convertibility of gold I would not undertake fresh coinage, I would not recommend the undertaking of fresh coinage; but if this reserve cannot be depleted below the present limit or a further limit, then fresh coinage will have to be undertaken.

2969. But you contemplate that the public should be at liberty to present silver and get rupees in exchange?—Yes, the varying amount of silver.

2970. Well, during the period in which there was a large accumulation of rupees in the currency reserve that silver bullion would be useless to Government?—Yes, it won't be of much use.

2971. Would you propose that Government should be required to hold that bullion?—Well, if it can reduce it safely, it should convert it into gold gradually.

2972. You mean that Government should sell that bullion again?—Yes, convert it into gold by selling here or selling abroad.

2973. But is not that rather a wasteful process?—I would prefer Government getting gold from the people and giving currency notes in exchange, but if the other alternative is more convenient from their point of view,—well, to a certain extent, that inconvenience may be put up with. The process is wasteful, there is not the least doubt about that; but there is no better alternative I can think of.

2974. You think it would work satisfactorily?—I have not got the slightest doubt about it.

2975. (*Professor Coyajee.*) Mr. Gyan Chand, in paragraph 9 of your memorandum you observe: "A great deal of nonsense is talked about the gross inequity of the proposals to raise the rate of exchange above 1s. 4d. to the debtors, poor consumers and the taxpayers because the rupee being a token coin like the shilling ought to have a constant value in terms of gold." Now on this subject might I put to you the views of a well-known recent writer on Indian Exchange? In the first place he argues that on account of the shifting of the rate from 1s. 4d., the agricultural classes have lost much on the rural

debt. Do you agree with that?—I do not agree with it at all. I consider it entirely a mistaken view.

2976. Might I present his views a little more at length. He says "If the debts amount to 800 crores it should be remembered that the modification in the value of the rupee will affect 80 million people in the Native States and 247 millions within British jurisdiction. Consequently the twisting of the exchange up to 1s. 6d. means that the cultivating classes will be compelled to find 50 millions more of its equivalent in commodities in order to fulfil this debt if they ever repay it." What do you make of this argument?—Well, the cultivators have received silver and undertake to give silver rupees; they did not undertake to give gold and they won't know they are paying more. As a matter of fact, if prices in India are stable and there is no sudden fall in prices, there will be no injustice whatsoever. Injustice will arise by bringing about deflation of currency or fall of prices.

2977. (*Chairman.*) As this is an argument which the Professor develops in his memorandum, do you think we shall gain any further elucidation by this process?—My view, Sir, is that it is entirely mistaken; this view is entirely mistaken.

2978. (*Sir Alexander Murray.*) I think in reply to previous questions, you indicated that you did not blame the gold exchange standard for the break-down in 1907 and 1914?—I blamed the Government of India and not the gold exchange standard itself.

2979. You also do not blame the gold exchange standard for the rise that took place in Indian prices in 1907 and 1914?—The rise would not have happened if you did not have a gold exchange standard.

2980. You do not object, I understand, to the Government of India acting as an exchange bank to a certain extent so far as remittances are concerned?—I would like to have a separately constituted body for the purpose of giving expert advice to Government.

2981. I thought you indicated in reply to Sir Purshotamdas that you would not have the bank doing this work?—I would have it now for managing remittances and other affairs connected with the currency.

2982. (*Sir Alexander Murray.*) Why should you want that?

2983. (*Chairman.*) Shall we take that question a little later, because I think it would lead on more clearly to that subject if we did so.

2984. (*Sir Alexander Murray.*) One other point: Is there not an objection to adopting the gold standard in the fact, that you referred to when discussing with the Chairman a moment ago, that the position as regards the Federal Reserve Board of the United States has very materially altered since 1914? For instance, it had only about 100 million pounds of gold under their control in 1914, whereas now they have about 600 million pounds; does not thus very great power lie in the hands of that Board, so much so that as a matter of fact we would be putting ourselves almost entirely in the hands of the Federal Reserve Board if we adopt a gold standard?—You say that the danger with regard to the Federal Reserve Board is that it is liable to political pressure?

2985. What I mean is this: one of the objections taken to the gold exchange standard is that it is open to manipulation at the hands of the Government of India or the India Office. Similarly, is it not an objection nowadays to the gold standard itself that world prices and gold prices generally would be liable to manipulation at the hands of the Federal Reserve Board owing to the very large stocks of gold that they control at the present moment?—Or the Bank of England for the matter of that. The Bank of England and the Federal Reserve Board can both regulate and affect their course.

2986. And we are in their hands almost entirely?—As much in their hands as we in India are in the hands of the Government of India.

2987. Then why do you prefer to be put into the hands of the Federal Reserve Board or the Bank of England, rather than in the hands of the Government of India?—The ultimate control is going to rest with the Government of India.

2988. (*Chairman.*) I think that point might be developed later. Let us clear the air by taking the next point of substance in your memorandum, that is the proposal for a new currency board which is to be nominated by Government with a majority of non-officials. I want, in the first place, to know what your opinions are in regard to the policy that is to be pursued by this Board. If I understand you aright, this is the authority which will manage the currency?—Yes; it will be in charge of the currency system.

2989. Its object then will be, as I understand the recommendation which you developed in answer to my colleagues, not so much to regard the stability of exchange as the stability of prices?—Yes.

2990. The question I wanted to put here is upon what information would it proceed in acting to secure the stability of prices in the country?—That would not be its main object or the only object.

2991. Shall we take the answer you are just giving a little later? Let me put my question again. When they are pursuing this object, whether it is the main or not the main one, of securing the stability of prices, what statistical information will be at their disposal to assist them in securing their object?—Movements of prices; if the prices are rising they will know the time for action has come.

2992. How will price movements be recorded and brought to their notice in a useful form?—I might here say that the present index number is not suitable for the purpose. A new index number will have to be reconstructed to indicate the extent of appreciation or depreciation in the purchasing power of money.

2993. Would you regard it as essential for the carrying out of the policy to which you have referred that a more scientific statistically—based index number should be prepared?—Yes; on the basis of prices compiled by much better men than we have got at present.

2994. By much better methods?—Not methods; the men on whose quotations we depend for constructing index numbers are not fit for the work they are doing, and therefore compilation will have to come from better sources. I do not refer at all to the higher authorities—I am not in any way questioning their efficiency; I am saying that the district officials and other people upon whose local quotations the Government of India depend are not in a position to give correct quotations, and therefore we will have to introduce a better system.

2995. I asked you to postpone an answer just now in which you were about to say that the stabilisation of prices would not be the principal object of the currency board. What then would be the principal object of the currency board?—For the present I would entrust four functions to it: first, declaring the varying rate of seigniorage.

2996. As regards the minting of rupees?—Yes.

2997. That would be practically a mechanical thing?—Yes; it will be mechanical; the second will be purchase of silver or making arrangements for the purchase of silver. The third will be the question of investments of the paper currency, to what extent they should be invested in Indian Bills of Exchange and to what extent in short term securities elsewhere. The fourth will be advising the Government of India on the question of remittances, as to the time at which they are to buy sterling bills in India.

2998. All these functions of the currency board are comparatively routine functions?—Not the question of investments.

2999. The question as to whether such and such a sum for investment is to be invested in long term or short term securities?—How much money is to be invested in Indian Bills of Exchange, whether 12 or 18 or 20 crores, and how much is to be got in

England in short term securities is a very vital question on which the total amount of circulation in India depends; and therefore it will call for intelligence and judgment.

3000. That is a very clear account. The next question that suggests itself to me is this: by what means is this policy of stabilisation of prices to be forwarded?—It is a very difficult question which I am not in a position to answer in a limited compass. But we will have to take into account the amount of business, the quantity of money in circulation, the conditions of employment, whether there is any famine in the country or whether the conditions are fairly normal, and the conditions of internal and external trade.

3001. What authority would have to consider all these things?—The National Currency Board.

3002. What will also be its function?—In considering the question of investments, whether more money is to be put into circulation in India or whether more money is to be invested in short term securities elsewhere, it will have to take all these considerations into account.

3003. Let us then return to my question, which was this: by what means will this policy of the stabilisation of prices be forwarded? You refer to the essential considerations which will have to be taken into account, and then the next question is what action can be taken to ensure the stabilisation of prices?—The only action now that I can think of is either putting more money into circulation or withdrawing money from circulation.

3004. In whose hands will it be to make decisions upon whether more money is to be put into circulation or withdraw?—The National Currency Board with the sanction of the Government of India.

3005. That would be a very important function, would it not?—But it will be brought about by varying the investments.

3006. Will you describe to us how you would bring about the increase of the circulation or the decrease of the circulation by the variation of these investments?—By purchasing sterling bills it can increase the quantity of money in circulation; and by deciding to invest less money in Indian Bills of Exchange it will withdraw money from circulation or withhold its increase. May I just put in another word? I do not attach very great importance to the function of stabilisation, because I do not expect much that way; I do not think we are in a position to manipulate the currency system in such a way as to bring about a comparatively stable level of prices in India; the mechanism is not there; to a certain extent the National Currency Board can vary the amount, but that would not be very appreciable, and therefore I do not count it as one of the functions of the Currency Board.

3007. So that you do not really anticipate that you will achieve any great stabilisation of prices?—We are not in a position to do so, any way.

3008. It seems as if a rather captious critic might say that you let the stability of exchange go and do not get stability of prices in its place?—We will have less instability of prices; that is an advantage in itself.

3009. I want to put to you another alternative. It might be said by a critic in objection to your scheme, simply on the question of administrative machinery, that the main object to be attained is a co-ordination of control over banking reserves and currency exchange reserves, and that a divorcement between the control of these two things is to the disadvantage of the country. It may be said, then, that a currency board is undesirable because it not only maintains the present divorcement between the control of banking and currency reserves, but it introduces an even further impermeable stratum between the bank authorities and the Government of India?—The stratum would not be quite impermeable because the banking interests will be represented on the National Currency Board. I definitely recommend that. Then it is going to work in close collaboration with the Government of India and as the Imperial Bank is practically doing the same work there will be close association between the Imperial Bank and the National Currency Board. I do not anticipate that there will be greater divorce on account of the introduction of a National Currency Board. I anticipate closer association as a matter of fact.

3010. Let me ask you now to contemplate yet another alternative, which is the transfer of the control of the note issue and reserves from the Government to the Imperial Bank of India. What is your opinion upon this?—I have expressed my opinion in the memorandum and that is just this. If I had my way I would entrust the note issue to the Central Board of the Imperial Bank. But the Central Board of the Imperial Bank is not above suspicion and before it becomes what I call the keeper of the currency conscience of the country it ought to inspire a greater confideuce which it is not likely to do in the near future.

3011. I think I should ask you to amplify a little your answer to the effect that the Central Board of the Imperial Bank is not above suspicion. What are you referring to in this connection?—Well, I don't make any definite charges against the Bank. I am not in a position to know, but I know men who are in a position to speak with authority have brought the charge of racial discrimination against the Board of the Bank, that it does not give accommodation to Indians as freely as it ought to, or at least the local boards do not. The charge has been brought again and again by men who are in business. Now I don't know how far that charge is justified. But I know from my personal knowledge that the Central Board of the Imperial Bank will not be considered a non-partisan body. It is too much identified with particular interests to inspire confidence in the minds of the Indians.

3012. I understand that if the Central Bank were to possess that confidence, to the deplorable lack of which you have referred, you would be content to entrust the control of the note issue and the Reserve to the Central Bank, and I also rather gather that you prefer that to your proposal for a Central Board? —Well, inasmuch as I do not anticipate the Imperial Bank inspiring greater confidence in future than it does at present, I believe that the constitution of a National Currency Board is the better alternative.

3013. You are of opinion, I understand, therefore, that it would be useless to attempt to make any changes in the constitution of the Imperial Bank such as would enable you to recommend the transfer to which I have referred?—Unless the control is radically changed.

3014. What radical changes would you propose?—Indians should be in a position of predominance.

3015. How would you secure that predominance? —I cannot secure it and therefore I give up the attempt.

3016. I do not mean practically how you would secure predominance, but by what proposed reconstitution of the organs of government of the bank would you secure it?—I would make it, and I would see that Indian interests are freely represented.

3017. I do not want to press you for details. You have not worked out in your own mind the constitution of the Imperial Bank, but I understand that the point upon which you lay vital stress is that there should be a preponderance of Indian members in the control of the bank?—Yes, I would attach importance to that consideration.

3018. Having cleared out of the way that rather perhaps less purely economic aspect of the situation, with an Imperial Bank reconstituted in such a manner as to inspire confidence in you and in others, would you prefer the control of the note issue and the reserves against the note issue by a Central Bank to a control by such an intermediary Currency Board as that to which you have referred?—The

question of confidence is vital and has got an economic aspect as well.

3019. I rather wanted to get away from the question of confidence to a purely economic consideration as to whether, in your opinion, the ideal method for the control of a currency is by a Central Bank which inspires confidence or by a joint Currency Board?—Yes, I would prefer a Board to a Central Bank provided it has set before itself a high standard of public duty and shown that it is not merely a profit-earning concern, but thinks of the nation first and profits afterwards.

3020. You insist upon the well recognised doctrine that the Central Bank has a duty to the community in addition to, or even before, its duty to its shareholders?—Yes.

3021. I think that completes the questions I wanted to ask about that subject, except for this final question. I understand that you express a strong opinion, in regard to any scheme for administration, in favour of the unification of the paper currency reserve and the gold standard reserve?—I do.

3022. Could you tell us in outline for what special reasons you lay so strong an emphasis upon that?—My only reason for not wanting a separate gold standard reserve to be maintained is this, that if my proposal that the bulk of the invested portion of the paper currency reserve should consist of short-dated foreign securities is accepted, then this reserve can very well be used for the same purposes for which the gold standard reserve is used to-day, and the fact that the securities will be short-dated will, as a matter of fact, make it better from that point of view, and eventually I do expect that the invested portion of the paper currency reserve will, to a certain extent, be used for the support of exchange, though I do not want that to be its main purpose. May I amplify this point for a minute? You know very well that Japan has been making use of its paper currency reserve for supporting exchange, and part of the invested portion has been kept in the United States. She has, without any embarrassment whatsoever been able to manage her currency system on that basis. I do not see any reason why we should not be in a position to do so.

3023. Have you any other reasons?—No, I have got no other reasons just now.

3024. (*Chairman.*) I think there are one or two supplementary questions which my colleagues wanted to ask on the Currency Board. Sir Purshotamdas, I interrupted you, I am afraid, on that question.

3025. (*Sir Purshotamdas Thakurdas.*) I will just take it up at that point. Would you then, while exchange is left unstabilised according to your scheme, entrust the question of remittances to England to this National Currency Board?—I would recommend the Government of India to rely upon its advice, but the final decision, of course, will lie with the Finance Department.

3026. I see; then this will be merely an advisory body, and in case of difference of opinion between the advisory body and the Finance Member the Finance Member will prevail?—Yes. He will have the last word.

3027. When, therefore, the exchange is left absolutely free, you think that this will inspire more confidence in the public as far as the policy of the Government of India is concerned, or do you think it will expose them to greater misunderstanding by the people?—Well, the possibility of misunderstanding is likely to arise under any circumstances, but if the Government of India accepts it as a recognised policy that the National Currency Board is going to guide them and they, as far as possible, are going to rely upon its advice, then the possibility of misunderstanding will be certainly small.

3028. You mean that should anything go radically wrong after a case in which the National Currency Board's recommendation has been accepted, the Government of India should take shelter behind it and say that, after all, they had accepted the recommendation of the Board, and what else could they have done?—They can very well say that we consulted a body of experts which committed an error of judgment, and therefore if it turns out to be a mistake it is their mistake.

3029. So, though technically the final decision should lie with the Finance Member for all practical purposes, the responsibility will be with this Board?—In case the National Currency Board gives one opinion and the Finance Member chooses to go his own way then the responsibility will lie with the Finance Member and not with the National Currency Board.

3030. That means that whosoever's decision is upheld finally would carry the responsibility?—It will be mutual give and take.

3031. Yes, where there can be a compromise; but when you leave exchange to move about without any stabilisation or effort at it, should anything extreme happen and a compromise is impossible (and these things have happened in the past as you yourself relate in your paper) and it is a question as to which course is the more correct with regard to either to world conditions or the capacity of India to stand a certain strain. On such an occasion, would you lay the responsibility on whosoever's opinion is finally accepted?—I do not think the matter is as serious as that. Its only function is to advise the Government of India on the question of the time of remittances, but the amount is fixed for them, and a certain amount of money has got to be sent.

3032. Oh; would you fix the amount?—The amount is fixed by circumstances. A certain amount of home charges has got to be met.

3033. A certain amount of home charges have got to be remitted in a year. But it does not, therefore, necessarily follow that it is fixed for a month?—That is why I am saying that the National Currency Board will advise as to the time of remittances and the amount to be sent in a particular month.

3034. I see. Whether remittances should be made every month or every fortnight?—In certain cases even the needs of the next year can be anticipated. It is possible that they might like to send them up.

3035. Then would you allow that, too?—But, as I have said definitely, the Government of India or the National Currency Board should not try to influence the rate of exchange. They should try to influence the favourable conditions that might exist, but they should not set the pace themselves.

3036. But as they have such large amounts to deal with, are they not the largest dealers in the exchange market?—They do account for a great deal. There is not the slightest doubt about that. But if they find there is a great supply of sterling bullion on account of large exports, they can take advantage of the situation and lay money in England.

3037. And if you find the commercial and banking circles outside are waiting to see which way the Government will first take steps, the Government will not be able to help giving a lead?—Well, if they find that the Commercial community is waiting on the Government of India, the Government of India can for the time being refuse to take any steps.

3038. They must, then, follow the trend of commercial circles, and if the commercial circles are waiting to see which way the Government of India go, then both must come to a standstill?—This state of affairs is not likely to continue long.

3039. Anyway, you think that a scheme like that is feasible and can be put into practical operation?—I do not see any difficulty.

3040. In the meantime, Professor Gyan Chand, if, owing to the operations being left open absolutely to the sweet will of the commercial interests, exchange should fluctuate very widely, you do not think that that would do any material harm to India?—It all depends what you call more widely.

3041. Within a range of threepence; indeed, a witness did suggest a range of twopence?—Yes, I should consider it a great misfortune if it fluctuates between 1s. 4d. and 1s. 6d.

3042. Supposing it went down to 1s. 3d. and went up to 1s. 7d.?—It would be wider than it is, but I do not think international trade is going to be paralysed.

3043. What about India?—I mean the international trade of India.

3044. And as far as internal prices in India are concerned, they would not be affected at all?—The fluctuations would take place in response to the world conditions and the Indian conditions will remain stable or more stable on account of the fluctuating rate of exchange.

3045. If you had a threepenny drop or rise between any two or three months the prices in India would remain stable?—Well, the prices in India are not so very stable. They do not respond to the rate of exchange. They are more sluggish than that. And if you analyse the price figures of a number of years you will not see any violent price fluctuations in India on account of violent fluctuations in the rate of exchange?

3046. I take it, of course, that you have come to this conclusion after watching the operations of exchange and prices in important centres like Karachi and the Punjab and cotton centres like Berar and Central Provinces. I am just asking if you have come to this decision after watching the connection between exchange and prices in these centres?—No, I have only come to the conclusion on the basis of the index number and the rate of exchange. I find that the fluctuations in the rate of exchange do not bring about immediate or corresponding fluctuations in the level of prices.

3047. And if you were told by any person who was in daily touch with commerce that a half-penny difference in exchange does make a material difference in prices of cotton or wheat offered to growers, would you modify your opinion?—It does make a difference so far as the speculators or the dealers are concerned.

3048. It does make a difference as far as the prices available to the cultivators up-country are concerned?—The recorded prices do not show it.

3049. Exchange to-day is 1s. 6$\frac{3}{16}$d. for instance. If it goes up to 1s. 6d. and 3 farthings, prices must drop in up-country centres before the exporter can buy. And if the cultivator has to sell when his crop is being marketted, fluctuations in exchange do affect his prices?—Well, to a certain extent. But the recorded prices do not show this. I am referring to the prices recorded in official statistics.

3050. Oh, you are only going on what is recorded in the official statistics, and you do not say this from any personal knowledge of following daily fluctuations in up-country centres?—I am not in a position to acquire personal knowledge.

3051. (*Chairman.*) I interrupted Sir Alexander Murray on this point. Perhaps he would like to pick up his examination at the point at which I interrupted him.

3052. (*Sir Alexander Murray.*) We were talking of the constitution of the control in connection with exchange matters. You have answered several of the points that I purposed raising in the meantime. Referring to the constitution of your proposed Board, apart from the mere counting of heads that so many would be Indians and so many representing other interests, how would you actually allocate all interests? Would it be according to the areas—some from Bombay, some from Calcutta, some from Madras, and so on?—It is very difficult to say anything positive on that point, but I would not like interests to be represented on the National Currency Board. I would like the Government of India to choose those men whose advice they think is valuable.

3053. But have they not done that now under the constitution of the existing Central Board of the Imperial Bank of India?—Only those four gentlemen whom you were referring to.

3054. And the managing governors also?—Well, the managing governors are to a certain extent responsible to the stock holders.

3055. Are they not appointed by the Viceroy in Council?—Yes, but their range of choice is very limited on account of the fact that the managing governors and the governor have got to be appointed from among a few people—bankers who have been doing that work already.

3056. Would that not always be the case? Presumably your Board would be made up of men of skill with financial knowledge also. You would have to choose them from that particular class of people.—I don't think any Indian has an opportunity of becoming a governor in the bank for a very long time to come, and I think on the National Currency Board Indians would be utilised to a greater extent. They possess financial knowledge and skill as much as other people do.

3057. You will leave the constitution of the Board to the Government of India?—Yes, I will.

3058. Well, the Government of India have elected six out of the present Board. The Government of India have actually appointed six of the governors of the Central Board?—Yes.

3059. Well, what are your objections to them? Are there any objections to them?—The total number is 16.

3060. One moment, there are 13 members, I think, with votes, and of those 13 members, 7 are appointed now by the Government of India?—One is the Controller of Currency.

3061. There are two managing governors that are appointed by the Government of India; there are four governors appointed by the Government of India; and the Controller of Currency appointed by the Government of India. Altogether there are 7 out of 13. So that now under the present constitution the nominees of the Government of India are in the majority?—The range of choice is very limited for the Government of India. For the Government of India knows that the Imperial Bank is a private concern.

3062. (*Chairman.*) I do not think the witness quite follows your question, Sir Alexander.

3063. (*Sir Alexander Murray.*) Well, the question I am putting is that under the existing constitution the Government nominees have a majority on the Board, and can therefore dictate the policy of the Board. What more do you want under your other Board?

3064. (*Chairman.*) Just one moment to make the question quite clear. I am reminded that the Controller of Currency cannot vote.

3065. (*Sir Alexander Murray.*) Then anyhow there are six out of 12 with votes, half at any rate of the Board is constituted by the Government of India?—That means the managing governors and four others. As I was going to say, the range of choice for the governors and managing governors is very limited.

3066. And will continue to be for many years to come?—I do expect that for many years to come as far as the Imperial Bank is concerned, and therefore there is no likelihood of Indians being appointed managing governors or governor of the Imperial Bank even if the Government of India were desirous of doing so.

3067. But the election lies with the Government of India now?—Yes, but they have got to look to the fact that the Imperial Bank has got to be managed for the stock-holders to a certain extent. Their interest cannot be entirely neglected, and though they will choose the best men for the purpose, the number of men available is limited, and therefore their hands are tied.

3068. (*Chairman.*) Sir Alexander, the witness gives us his opinion as to a probability. I do not think one can really analyse that?—Yes, it is a question possibly of equation, but at the same time I am relating what is likely to take place.

3069. (*Sir Norcot Warren.*) May I ask if there is anything in the Act to prevent an Indian from being appointed as managing governor now?

3070. (*Chairman.*) I think the witness has answered that, that it is unlikely for many years to come.

3071. (*Sir Norcot Warren.*) Well, whose fault is that?—I am not allocating faults. I am stating the position.

3072. Is it the fault of the Government of India if you cannot produce men who are competent to be managing governors now?—There can be a different opinion as to the degree of competence required, but I am not allocating blame. I am only pointing out the facts. For some time the Indians have got no chance of being appointed governors or managing governor, and it may be the fault of the Indians or may be the fault of the Government.

3073. (*Sir Maneckji Dadabhoy.*) This newly-constituted Currency Board, this Currency Board which you recommend, can you give me from the history of any country in the world any parallel to this Board? Would you only accept a suggestion which has been carried out elsewhere? Will you take it that way?

3074. (*Chairman.*) I think it is a question which it is comparatively easy to answer, is it not?—The Federal Reserve Bank is almost a National Currency Board. Some of the members are appointed by the President and two officers, the Controller of Currency, and the Secretary are ex-officio members. I recommend that the Controller of Currency and Finance Secretary and seven other members or five members should be appointed by the Government of India.

3075. (*Sir Maneckji Dadabhoy.*) And these members who will be appointed by the Government of India can represent fluctuating commercial interests in the various parts of the country?—Well, my object would bo to eliminate fluctuating interests, to get experts who will give disinterested opinion. In the atmosphere in which we are living, I know this is very difficult. But still the Government of India should be guided in its choice not by propitiating this or that interest, but get the best men who will give advice.

3076. But, as you stated, the ultimate deciding authority will be the Finance Minister. Would not the Finance Minister be open to the charge of having chosen his own men?—He would be open to that charge, but he will try to get the men of unquestioned ability and integrity.

3077. Then it will still form a department of the State under the Finance Minister?—Just in the same way as the Central Board of Income-tax is a department of the State, but still the Central Board of Revenue is responsible for the administration.

3078. Will you give this Board any statutory authority or power?—In what sense?

3079. For the control and management of their organisation and the purchase of silver and matters to regulate their proper investment?—The constitution of this Board would require legislation. The changes which I recommend, if they are to be accepted, will require statutory changes.

3080. And this Board would be wholly dependant on the departments of Government for all statistical and other information?—If the statistical information is inadequate, it will press for more information or ask for information to be obtained from better sources. It can easily do that.

3081. Is it not possible to reconstitute the Imperial Bank on the lines of the recommendations for the constitution of the new Currency Board as suggested by you?—Well, if it were possible I would say do so. But as I don't think that it can be done taking into account the interests of the stock-holders who ought to have a say in the matter, I think the easiest way is to constitute a Central Currency Board.

3082. You stated in answer to one of my colleagues that you would insist on the preponderance of Indians on the Currency Board?—I would.

3083. How would you secure that?—Well, I would take it that the Government of India will try to appoint more Indians than non-Indians. That is the only way of securing it.

3084. You think they could secure at present Indians on this Board with the requisite information and knowledge?—Well, I do not think we are so very bankrupt in business and banking ability as not to be able to find four or five Indians who can represent India and her national interests on this Board.

3085. (*Sir Henry Strakosch.*) You said a little while ago that prices in India move very sluggishly and do not respond to the movement of exchange very rapidly? — I should not say very sluggishly, but they are not very sensitive. I would put it that way.

3086. Now if you had no declared policy with regard to the stabilisation of your exchange, and the fluctuations in exchange were wide, would that not be accentuated by speculative dealings in exchange and corresponding movements in the export and import trade?—Well, I am not in a position to give any definite answer to that question because I have not got any experience of a speculative market but I do think that as far as prices in general are concerned, as far as prices in the mufassil are concerned, they would not respond very readily to the manipulations of the speculators.

3087. You have followed the experiences of recent years in regard to currencies that were managed and not linked to gold, and did you not observe that the fluctuations in the exchanges are usually very violent?—Yes in cases like those of Germany and Austria, and in a case like France also.

3088. Even other countries. What importance do you attach to the maladjustment between the internal and external purchasing power of money?—Well, the only importance that I attach is that maladjustment one way or the other is likely to set certain forces at work which otherwise would not be there.

3089. But are not those maladjustments very disturbing to the internal economic life of a country?—Well, if the maladjustment is very pronounced, to a certain extent the economic life of a country would be dislocated, but if the internal conditions of a country make for stability, maladjustment will not count for much.

3090. I do not quite appreciate that point. I should like to ask you why the divergence of internal prices in relation to external prices should not be injurious to the internal economic life of a country?—Taken by itself, it should have an injurious effect, and the ideal is to bring about a nice adjustment between conditions in India and conditions elsewhere. But we are neither in a position to control conditions elsewhere, nor in a position to control conditions here and therefore maladjustments are likely to arise. The other alternative is to look to the internal conditions and see that the conditions are fairly stable, conditions of labour, conditions of capital, conditions of production.

3091. We are talking now about currency: how would you establish that stability of employment, of wages and so forth, by what processes?—The other things depend not so much on currency as on conditions of supply and demand, market conditions and all the rest of it. If we have got a good rainfall, if no particular area is affected by famine, if the demand elsewhere is good, I daresay conditions in India will be fairly stable; the maladjustments will have a disturbing effect, but that disturbing effect will be counteracted for the other conditions and the demand for Indian goods.

3092. If internal prices in India, for instance, were far higher than the external purchasing power of the rupee and if in consequence that was a flood of imports into India, would you regard it as unsound?—I wound not regard it as sound. If the maladjustment is very striking, I would take some measures, but you should not sacrifice everything else for that purpose.

3093. What do you mean by everything else? There is nothing else. It is true, is it not, that the aim of all monetary policy is stability?—The one aim which has been consistently ignored.

3094. But we are now thinking how would you order things in India to achieve that end? And I am just mentioning to you that if you leave the movement of exchange entirely to the accident of the moment, you are not doing anything towards that ideal?—Well, I am doing what I think is the right thing under the circumstances and that is because the possibility of maladjustment is minimized on account of the fluctuating rate of exchange.

3095. The maladjustment of prices is mitigated by the fluctuation of exchange? But I have just shown, and I think you will agree, that the maladjustment arises from violent changes in the external purchasing power of money?—The rate of exchange will fluctuate with fluctuations of price levels elsewhere. It would not be an independent factor.

3096. But they deviate very widely? If you are hitched to nothing they are bound to deviate very widely?—Now the point is if you have got fairly stable conditions in India and unstable conditions elsewhere, then the best way of securing internal stability is to allow the rate of exchange to fluctuate, to have mobility rather than fixity.

3097. And if conditions outside India are not stable, what would be your measures?—My only measure would be to let exchange take care of itself and never mind the maladjustment of prices. That is not likely to arise because the rate of exchange will rise if prices rise elsewhere and the rate of exchange will fall if prices fall elsewhere.

3098. There is one other point. In chapter VII of your memorandum you deal with the question of banking in India and you complain of the lack of cohesion amongst Banks. I take it, and I think you have expressed it, that the end and aim should be to foster the banking habit of the people?—Yes.

3099. By what process would you produce the necessary cohesion to satisfy this condition?—Well, I would have a well-co-ordinated system of banking after careful inquiry. Our information about the present banking system is very inadequate and therefore after full inquiry we will have to set up a new system which will provide for all things and will revolve round a central institution.

3100. You make the central institution the pivot of your future banking system? That will give a cohesion to the system?—Yes.

3101. Is not that rather in conflict with your suggestion regarding the future management of the currency? If you do need a central institution round which you want to build up a new co-ordinated system of banking, is it not logical to say that that institution should also manage the currency?—I have definitely said that the development of this system is going to take a very long time; it is not a question of a decade.

3102. Where would you begin to establish that system? Would you begin by establishing a central institution round which these banks will cluster, or would you first have the banks round the centre?—We have got the rural banks already, we have got the joint-stock banks already, we have got the exchange banks already. We need industrial banks, and all these should be linked to the central institution which has to be made responsible for the entire working of the banking system and also given the power of control. Now the chief point is how to find room for the indigenous system which is very widespread and about which we know so little. If we, after inquiry, can bring about a well-co-ordinated system, then a central institution can very well take the place of the national currency Board but I am afraid the Imperial Bank will have to be re-constituted radically if it is to serve that purpose.

3103. You just said, "we have in this country joint-stock Banks, agricultural Banks, industrial Banks"?—We have not got any industrial Banks to speak of.

3104. May I ask you what you call an industrial Bank?—Its main function is to foster the industrial development of a country.

3105. Do you call that a Bank? What is the investment Trust in England?—But that is not a Bank. A bank is an institution which takes deposits from the public and does banking business.

3106. What you have in mind is investment business which is not banking, properly so called?—Well, this is taken as banking by certain students on the subject and I take it as such.

3107. But that is purely a misnomer?—But there is such a thing as investment banking, industrial banking; these phrases have found currency.

3108. You say you have all these Banks, all that is lacking is co-ordination?—A well thought-out policy of co-ordination.

3109. Now co-ordination is rather a vague term: what do you understand by co-ordination? Will you just sketch very briefly what would be your plan?—I have not fully thought the matter out in detail and I am afraid what I may say may not be a very logical presentation of my views. You have first to provide for rural banks which are mostly under the present circumstances doing credit work; they are giving loans for a short period. They cannot give loans for long periods because their deposits are sort-term deposits. I would like to provide for a long-term deposits for the agricultural community.

3110. How would you do that?—By developing the banking habit by giving a higher rate of interest; that is the only way.

3111. In other words you would have to attract long-term deposits and build up reserves?—Yes. Their reserves are very inadequate. Then, we should provide for industrial banks, then we should have long-term deposits also for the artisans, the cottage industries. We want them for our economic life; their number is very small and they are giving loans for short periods. We want them to give loans for longer periods. These small banks will be built up into regional banks, for regions just bigger than a district. Then they can be affiliated to a central institution for the province, which area need not correspond to the territorial province. I use the phrase in the sense that certain areas can be kept together which have a certain amount of economic unity, not in the political sense of the word. Then we will have the co-operative Banks federated into a central co-operative Bank.

3112. How would you ensure that those Banks will always meet their liabilities?—At present the co-operative system is managed by the Government, is controlled by the Government, and as the co-operative system is developed, I expect that they will be able by wise management to meet their liabilities.

3113. You do not think that in order to strengthen the banking system it would be well to centralise rather than decentralise banking reserves?—I am for centralisation of reserves.

3114. You are for centralisation of reserves?—Yes.

3115. What does that mean in fact in your organisation?—It means collecting up of all spare reserves of the country and working up through these channels and bringing them into a central institution and mobilising in such a way that it is available in all parts of the country.

3116. So that the central institution is really the most vital part of that co-ordination that you have in mind?—It is the last link.

3117. Why not start with it?—If you have not got any bottom it is useless to have the top?

3118. Why do you call these other institutions the bottom? Why should you not call the central Bank the bottom?—It will be the coping stone of the structure.

3119. (*Sir Purshotamdas Thakurdas.*) I thought Professor Gyan Chand said that he would like the

new Currency Board to collect data for price levels?—I was put this question, whether it would really go upon the present statistics or call for better statistics.

3120. Would you tell us what sort of improvement you would make in the present method of collecting statistics?—You are putting to me a very difficult question which requires more thought than I have been able to give. But I think that the collection of those statistics should be by trained students. At present we rely upon subordinate officials who have had no training.

3121. They only report the prices?—Yes, report the prices. But reporting the prices also requires certain judgment. There are a number of prices in the market at the time and they have to select the prices.

3122. (*Chairman.*) You do not want a student to find out how much a thing costs, do you?—But when a number of prices have to be selected from, it requires some discrimination to find out which price is typical.

3123. (*Sir Purshotamdas Thakurdas.*) You simply find out the price of any one article that you may have in mind. The prices are collected, wholesale and retail, as things are sold in a certain area. The man has got to go and find out how many seers per rupee a thing sells. It is quite possible that he may go to a little more expensive shop or a little less expensive one. I want to know where the difficulty lies?—If he goes to a local market, he finds different kinds of wheat, for instance, in different markets. He will have to take one price as the price of wheat and for that purpose he will have to choose particular prices. He will have to find out which price is typical and which not, and this will require certain discrimination.

3124. There are three or four varieties of wheat, say, in the market; what is the difference between these varieties?—The difference in quality.

3125. What would be the difference in price? Up to what extent would the figures be ultimately wrong? Supposing he went to the most expensive variety and took the rate of that or to the cheapest variety and took the rate of that, what will be the difference, the margin?—You mean the margin of error.

3126. Yes, the margin of error?—I do not know sufficiently about the markets.

3127. Then how are we to say that the present figures are incorrect and can be improved upon?—I do admit my limitations; but at the same time that is my view which I want to work out.

3128. That is your impression; but you cannot give any instances of the variations caused?—My impression is that the present statistics are defective.

3129. But you cannot give us any concrete instances?—I will try to work it out.

3130. (*Sir Purshotamdas Thakurdas.*) We will be much obliged if you can send us the result after working it out.

3131. (*Chairman.*) Perhaps you would consider that. We must not make an undue call on your time, but if you work it out it is in the interests of the Commission to see the result of any consideration you give to the matter?—I will certainly make an attempt.

3132. (*Chairman.*) I express to you, on behalf of the Commission, our thanks for the assistance you have given to us to-day and for your very helpful memorandum.

(*The witness withdrew.*)

AT THE TOWN HALL, BOMBAY.

TENTH DAY.

Monday, December 7th, 1925.

PRESENT:

THE RIGHT HON. EDWARD HILTON YOUNG, P.C., D.S.O., D.S.C., M.P. (*Chairman*).

Sir RAJENDRANATH MOOKERJEE, K.C.I.E., K.C.V.O.
Sir NORCOT HASTINGS YEELES WARREN, K.C.I.E.
Sir REGINALD MANT, K.C.I.E., C.S.I.
Sir MANECKJI BYRAMJI DADABHOY, K.C.I.E.
Sir HENRY STRAKOSCH, K.B.E.
Sir ALEXANDER ROBERTSON MURRAY, C.B.E.
Sir PURSHOTAMDAS THAKURDAS, C.I.E., M.B.E., M.L.A.
Professor JAHANGIR COOVERJEE COYAJEE.
Mr. WILLIAM EDWARD PRESTON.

Mr. A. V. V. AIYAR, C.I.E.
Mr. G. H. BAXTER. } (*Secretaries.*)

Messrs. V. A. GRANTHAM and H. A. W. BRENT, representing the Bombay Chamber of Commerce, called and examined.

3133. (*Chairman.*) Mr. Grantham, you are President of the Bombay Chamber of Commerce?—Yes.

3134. And a Member of the Legislative Council?—Yes.

3135. And you appear to give us the benefit of the views of the Bombay Chamber of Commerce?—That is so.

3136. With Mr. Brent?—Yes.

3137. You, Mr. Brent, are the Chairman of the Financial Committee of the Chamber of Commerce?—Yes.

3138. And Manager of the International Banking Corporation?—Yes.

3139. And you have present with you the Secretary of the Chamber?—Yes.

3140. We have the benefit of a very full memorandum* which I understand sets forth the views of the Chamber of Commerce, and I understand that I should address my questions to you in the first place, Mr. Grantham?—(*Mr. Grantham.*) That will be convenient, and I will ask Mr. Brent to reply where I am not prepared to.

3141. If you please. Your very full memorandum, for which the Commission is obliged, will save me a great deal of time in going into details. I will, if I may, ask a few questions where you lay special emphasis on your proposals and criticisms for the purpose of elucidating any points that appear capable of elucidation. In the first place, in the second paragraph of your memorandum you refer to the uncertainty surrounding world gold values. You refer to them as it were to dismiss them as of primary importance in considering the period of stabilisation, but I should like to ask you whether you can amplify a little what you consider to be the uncertainties at the present time surrounding world gold values?—I think the only answer to give to that is that we are not sure in India where the supply of gold is to come from and exactly what action the United States is going to take.

3142. You have in mind the possibility of some change in monetary policy in the United States such as would tend to set free a substantial addition to the world's gold supply?—That was at the back of our minds.

3143. There is no other outstanding possibility to upset the world's gold values in your mind?—(*Mr. Brent.*) No. (*Mr. Grantham.*) I do not think so, Sir.

3144. In paragraph 4 of your memorandum you begin to deal with the best standard for the Indian currency. You deal there with the instability of exchange due to the circumstance that by pre-war methods, the rupee was stabilised in terms of sterling and not of gold, and you propose, as I understand, to establish stability in reference to gold rather than sterling?—That is so, Sir.

3145. Will you tell me what alterations you propose in pre-war methods in order to establish the stability of the rupee in terms of gold rather than of sterling? I think perhaps I can make myself clearer if I say I am referring now to the transition period which you outline before the arrival at a gold currency when you maintain something in the nature of an exchange standard; and what I want to make clear is, assuming the maintenance of an exchange standard, what differences you propose in contrast with pre-war methods, the pre-war exchange standard, in order to stabilise the rupee on gold and not on sterling?—(*Mr. Brent.*) Well, the transition period is one that we discussed at great length, and we really could formulate no scheme to enable the conversion gradually from a gold exchange standard to a pure gold standard—as to what method should be adopted during the transition period.

3146. I have not yet made myself quite clear, I can see. You recommend a transition period during which we should have an exchange standard?—Yes, Sir.

3147. You recommend that there should be a gold exchange standard and not a sterling exchange standard?—(*Mr. Brent.*) Well, I think our recommendation is synonymous. I mean our intention is synonymous because we state you will see, in our report, conversion either in gold or sterling.

3148. Then you do not recommend any alteration in pre-war methods in order, theoretically and practically, to stabilise the rupee on gold rather than on sterling?—(*Mr. Grantham.*) I think we do. We have suggested there should be some limitation on the issue of rupees.

3149. Let me put a leading question. Would you propose, in order to establish it as a gold exchange standard, that you should keep part of your exchange standard reserves in the currencies of other gold standard countries rather than in sterling countries?—(*Mr. Brent.*) That was a point we never discussed because we were working purely on sterling but I do not think there is any objection. (*Mr. Grantham.*) No, we have recommended in this evidence that the gold standard reserve should be kept in London entirely and I think it follows that there would be no great objection to keeping a portion of it in other foreign countries.

3150. I understand from the answers you have just given that, as a matter of fact, you attach no importance to it, and that, in the transition period, you will be content if the reserves, so far as they are kept in foreign currencies, are kept in sterling?—(*Mr. Grantham.*) That is so.

3151. Now I want to turn to paragraph 5 of your memorandum, and to ask you some questions on your analysis of the disadvantages of the exchange standard system which lead you to propose finally a full gold standard; and in order, if I may say so, to test your arguments my questions will be directed to ascertaining whether these defects are not remediable on a perfected exchange standard system, or whether the only possible remedy is to be found in a full gold standard. Now taking them one by one, first of all I will refer to the more automatic nature of a full gold currency. Supposing that the pre-war exchange system was not automatic in its nature, might not the exchange standard system be made automatic by the combination of the two reserves into one, and by their transfer for control and management to a Central Bank. The only question that I want to raise there is, would an exchange standard system altered in that manner not become an automatic system?—(*Mr. Grantham.*) I think our feeling is, Sir, that it could not because unless the balance of trade is liquidated by imports of gold which are purely automatic, we cannot see any other system which can be purely automatic; it must be managed even if it is managed by the Imperial Bank.

3152. Contemplating an exchange standard system with combined reserves in the hands of the Bank, what would be the opportunity for the management of such a system?—(*Mr. Brent.*) Assuming that there would be no complete conversion; unless notes were convertible into gold it must be a managed system.

3153. Assuming that notes and rupees are both freely convertible into foreign exchange, the question which would seem to need consideration is whether there would be any opportunity for the management of a system of the sort?—(*Mr. Grantham.*) That would depend on foreign exchange maintaining its true value in gold.

3154. That would not depend upon the Bank: it would not be within their sphere of interference?—No.

3155. If you accept the free liability to give foreign exchange for notes or rupees and to give rupees for foreign exchange, that is, the liabilities absolute and converse, do you see any way in which the Bank could manage it?—(*Mr. Brent.*) No, if conversion were possible, the conversion of rupees and notes.

3156. That would depend upon the maintenance of an adequate reserve?—Exactly.

3157. Now that raises another point. You deal in your memorandum with a gold standard and a gold currency. You say if gold can be made to circulate it will have a greater stabilising effect on internal prices. There are two questions there. That recommendation of a gold standard is made upon the supposition that gold can be made to circulate. Will you, from your long and wide experience of the currency habits of the country, tell us whether gold could be made to circulate, and, if so, how it could be made to circulate?—I don't think anybody could tell you that.

3158. You don't think it possible to give an answer to the question?—I don't.

3159. Then you are not so confident that the result of the introduction of a full gold standard would be

* Appendix 16.

to increase the circulation of gold?—Well, we have said in our evidence that we think at the beginning it might not have that effect but ultimately we feel it would have the effect of increasing the circulation. But I do not see how it could be more than conjectural; it must be a guess.

3160. What influences do you think would be at work to increase gold in active circulation under your proposals? If I may make my question a little clearer it is this. Gold has been available for circulation in the past, but it has not gone into circulation. In view of that experience the question suggests itself, is it more likely to go into circulation in the future?—In certain districts in India where it was in circulation it was freely acceptable.

3161. That was in the Punjab, was it not?—Yes, mainly.

3162. Were there any other districts?—Yes, in Kathiawar; indeed it was at a premium.

3163. I understand that if gold is freely available it might return into circulation in those parts?—Yes.

3164. Basing your answer generally on your experience in the past?—Yes.

3165. The second question raised by clause (b) is why should gold have a relatively greater stabilising effect on internal prices than a purely rupee currency working under a gold exchange standard, if I may ask you to make the supposition that the value of the rupee in gold has been stabilised under an exchange standard system? In both cases the gold value of the rupee is stable, that is, making the assumption that I have asked you to make; and, if it is stable in both cases, why does the fact that in one case gold is in circulation and in the other it is not have any greater stabilising effect on internal prices?—I think the fact that the gold is available and freely exchangeable in these districts would have the effect of stabilising internal prices; that was our feeling; our feeling was that at present internal and external prices were not running concurrently, and they might not do so even under a gold exchange standard, even though the rupee was stabilised in terms of sterling.

3166. Supposing that, as at present, there is a discrepancy between internal prices and external prices, would it not be the case that, after the gold value of the rupee had been stabilised under any system for a certain period, that discrepancy might be expected to have disappeared by adjusting itself? Is not that only a temporary discrepancy due to the fluctuating gold value of the rupee?—I do not think altogether, Sir, if it was felt that gold was always available in exchange for the rupee, I think it would create a difference.

3167. Let me now pass on to clause (c): "They feel that a gold currency, divorced from hoarding influences, would be more easily capable of contraction than a rupee currency, inasmuch as rupees are neither exportable in the same manner as gold, nor meltable without loss, and this capacity for contraction should have the effect in the long run of producing greater stability." In the first place, could you amplify a little what you mean by a gold currency divorced from hoarding influences? Is that divorce a natural result of the introduction of a gold currency, and if so in what manner does that follow?—We meant there that in course of time, as gold became freely available, the tendency to hoard it would be less; at the present moment if there were a gold currency the tendency would be, we think, to hoard it; but in the course of time we think that would go owing to the mere fact that the people would feel that gold was available whenever they wanted to have it.

3168. I will ask you a question or two about that a little later on; it really refers to circumstances which you mention lower down. As regards the capacity of contraction, you said the rupees are neither exportable in the same manner as gold nor meltable without loss. But rupees, although not exportable in the same manner as gold, are convertible into a foreign exchange and withdrawable from the currency upon conversion; and, referring back to an altered and, it may be, perfected system of the exchange standard to which I have referred, in which the exchange standard would be based upon a united reserve in the hands of the Imperial Bank, might not a currency under such an exchange standard system as that be as automatically contractible as under a full gold standard? The improvements to which I am referring are the combination of the two reserves into one, accepting the liability for the conversion into foreign exchange of the rupee currency, and then the transference of the management to a Central Bank. Under a system of that sort would not the currency be as automatically contractible as it is under a full gold system?—It might be more quickly convertible, but I think we feel it would be difficult to get such a perfect standard as to make it automatically contractible.

3169. You think that, at a time of bad exchange, rupee exchange would come in to purchase foreign exchange; foreign exchange would come out; the reserves would be diminished; and the currency would be automatically contracted. Would you see any greater advantages in the automatic contractibility under the gold standard than under that method to which I have briefly referred?—I think we should prefer to see actual export and import of bullion.

3170. If I may try and bring out the weight of your evidence, I believe you are relying upon the circumstance that, under the gold standard, there are less opportunities for interference with the working of the standard?—That is so; that is at the back of it all.

3171. Is any standard proof against violent interference at times of great stress and pressure, and have we not known during the war full gold standards breaking down lamentably?—Yes, Sir; that is certainly true.

3172. Now, referring to your clause (d), do you consider that the use of cheques can be introduced to any appreciable extent in the foreseeable future in the great mercantile towns?—I think it could, Sir, as more confidence is created in the banking system.

3173. That could only come through confidence in banking. Do you consider that the full gold standard would directly tend to produce increased confidence in the banking system, or does that depend upon other and more numerous considerations than any question of the standard of currency?—Yes; we do definitely feel that if gold is always available in return for cheques, there would be greater confidence.

3174. Just to test whither that is leading us, which do you consider to be a stronger influence in promoting public confidence in banking in India, the nature of the currency system or the stability of the banks themselves? Might it not be said that what is really needed as regards the education of the populace in these great mercantile towns is the production of fundamental confidence that a bank is a stable institution which will pay a debt, and that, in comparison with that, any atmospheric influences as to the currency may not be of so much importance?—(*Mr. Brent.*) That is essentially so, Sir, but that point of the question we are leaving out altogether. We are assuming that the stability of the bank is without question if they encourage banking habits among the natives of India and our assumption is that, if they were able to draw cheques and get gold that it would be a distinct encouragement towards banking in this country. (*Mr. Grantham.*) I would amplify that, Sir, by saying that I do not think the native of India in the outlying districts does appreciate in any way whether a bank is strong or whether it is not strong. He may gradually gain confidence in a particular bank by the fact that cheques are always paid by that bank, but I think he would mainly judge it by the fact that he could get either gold or silver in exchange for his cheques, preferably gold.

3175. Now, as to clause (e), your committee feel that more actual gold would be imported into India under a full gold standard currency. That would no doubt be a feature of the period of transition to the gold currency, but are you of opinion

that that would be a permanent feature of the full gold system?—(*Mr. Brent.*) Well, it would be unnecessary, Sir, once the gold standard were established and gold circulating freely.

3176. It would be unnecessary undoubtedly, and, therefore, perhaps it would not take place—a permanent increase?—It is a transition period.

3177. Will you explain a little more carefully the following statement:—"This would automatically ensure the accretion of greater real wealth in terms of the world's standard of value." How would it ensure the accretion of greater real wealth? Is gold real wealth?—(*Mr. Grantham.*) At present, Sir. Our impression is, as long as gold is the world's standard of value, that it does represent real wealth.

3178. It represents wealth as a store of value, I take it?—Yes.

3179. And it has a use in the arts, but otherwise is gold more real wealth than anything else?—I think it is to the Indian, Sir. It is certainly more readily exchangeable than other produce.

3180. It is a commodity which he greatly desires as we understand?—Yes.

3181. His desire is for gold for ornaments and for hoards?—(*Mr. Brent.*) For hoarding and for ornament, of course.

3182. Are those uses of gold which you desire to promote?—(*Mr. Grantham.*) No, I think the reason we wished to promote it was that it was the world standard, and at present India has got comparatively little in actual use.

3183. I understand you are not really advancing the view in this paragraph that the wealth of India is to be measured by the gold she can get?—Not entirely, Sir, by any means.

3184. On clause (*f*), the question I desire to ask is this. The rural population prefers gold to silver, that is, you tell us they prefer gold for hoards and for ornaments. In your opinion does the rural population really prefer gold to silver as currency?—I think there has been an increasing use of it, Sir, in quantities. Very small portions of gold are sold now in up-country districts.

3185. For active currency?—They are used to some degree as currency in that a ryot takes a small lump of gold and hands it back to his bania in times when he wishes to purchase something; especially in the cotton districts we have witnessed that.

3186. Is it or is it not a feature of the psychology of the uninstructed Indian public that they base their sense of currency values principally upon the rupee?—They see more rupees than gold, but I do not think they would prefer silver if they could afford to get gold.

3187. Is it not the case that the vast bulk of currency transactions are of such a magnitude that gold is not a suitable medium for exchange?—I am not sure that I appreciate the question.

3188. I mean, for the little buying and selling connected with the ryot gold is no good to him for that purpose?—Not for petty purposes.

3189. Paragaph 6, I think, needs a little elucidation. You state that "in Europe it is considered uneconomical to dissipate gold reserves in actual currency, but that India cannot be judged solely by western standards." I take it you do not mean that it is any less uneconomical in India than elsewhere?—(*Mr. Brent.*) No, Sir, we have emphasised that fact later on in the report—the question of economy—that it is much more expensive.

3190. The weight of this paragraph is that other considerations, such as the preference which you referred to, should be weighed against the cost?—Well, hardly weighed entirely against the cost. I think other considerations should be weighed against the cost, I think you will find from our report that the question of a pure gold standard is to us more or less a pious hope.

3191. I was trying to ascertain the piety of the hope. Assuming, as stated in paragraph 7, that a gold currency is introduced, I understand it is your opinion that this would result in an immediate increase of the tendency to hoard?—Yes.

3192. But that you anticipate that that tendency would correct itself in course of time, and that the reverse result would be produced?—Yes.

3193. From your knowledge of Indian conditions and the rate at which public opinion can alter in this country, can you give us any idea at all—(I do not mean within five years even)—as to the order of time which would be required for the reverse action against hoarding?—Well, Sir, that depends entirely upon the rapidity of the transition period. I mean it is a question of familiarity. You cannot expect the reverse to happen until it has become so familiar and so possible that the Indian can obtain gold whenever he wants it.

3194. You can only say that the tendency to hoard would continue until the public was thoroughly familiarised with the fact that gold was always freely available against their rupees and notes?—That is so.

3195. Perhaps you would rather I did not ask you to commit yourself to any sort of rough statement for the assistance of the Commission as to what order of time would be involved—5, 10, 50 or 100 years?—I do not think so.

3196. What would be the effect of the rendering of gold freely available in return for rupees and notes upon the holdings of silver hoards in the country?—(*Mr. Grantham.*) They would exchange them, I think, to some degree.

3197. Have you been able to form any estimate, however approximate, as to the amount of rupees which are held in hoards in the country?—(*Mr. Brent.*) No, we have not, and that is one of our principal reasons for finding no solution to this question of conversion during the period of transition.

3198. Perhaps I might suggest that we should assume, for the purposes of our further questions, an estimate of some 150 crores of rupees held in hoards in the country. I understand you would rather not express an opinion whether that estimate is right or not. If you will very kindly assume it just for the purposes of our next few questions, do you look upon it as impossible, or indeed improbable, that the result of making gold freely available in the manner described might have the effect of bringing out the whole of these hoards in a very short period?—(*Mr. Grantham.*) I do not think we could give an exact answer to that question, Sir, beyond saying that we feel that a very large percentage of the silver hoards would come out.

3199. You think that a very large percentage would come out in exchange fairly quickly?—I think so. I think that would be the tendency.

3200. At any rate, we need not try to ascertain the possibilities too closely; we need only say that there is a possibility?—Yes.

3201. If we assume that figure which I have given to you, and assume throughout the period for the conversion of silver rupees into gold, including hoards and the Government silver reserve, a total sum of 200 crores—(I am asking you again to be kind enough to take that figure from me)—we arrive at the conclusion that, in order to bring a full gold standard into final full operation, you require an amount of gold approximating to 100 million sterling. Will you tell me what your view is as to the effect of the withdrawal of that amount of gold from the world's supplies to India?—I am not prepared to attempt to do so, Sir.

3202. You would not perhaps be prepared to go further than to say that it is a circumstance which would require serious consideration?—(*Mr. Brent.*) Very serious consideration.

3203. Would that be because of its possible effect upon world gold prices reacting upon the welfare of the Indian nation?—Yes.

3204. One question regarding the cost of this scheme. If I may ask you to make a further assumption, that the recurring cost to India of the introduction of a full gold standard would be about a crore and a half per annum during the transition period and about a crore and a fraction per annum thereafter, what weight would you attach to the disadvantage of this expense against the advantages of the system as you have described it?—But you said just now, Sir, a crore and a half per annum during the transition period—transition of what period?

3205. Five years, and then a crore and a fraction? —(*Mr. Grantham.*) For so long as it was in operation?

3206. For ever; a permanent addition to India's debt. I just want to see what relative importance you attach to these considerations?—I do not think I should be prepared to answer that without consideration of the figures.

3207. Of course I am not asking you to accept those figures as your own evidence. I am only asking you to make that assumption. As a matter of fact we have had evidence suggesting that that would be the cost of the scheme, and I thought it would be of assistance to the Commission if you could tell them, reducing to an arithmetical figure the annual cost of your scheme, whether you would consider that to any extent such a cost as that would or would not outweigh the advantages of the scheme? —It is rather difficult for us to give a reply at all to that without giving further consideration to the figures. My own impression, Sir, is that it would justify the cost even at that expense because of the ensured stability of the system but I think Mr. Brent is of opinion that the cost would not be justified. Of course as this question has not been considered by my Chamber, this opinion which I have expressed is my own personal opinion.

3208. Now, continuing on paragraph 8, you refer to the possibility of the gold in circulation being available for the support of the external value of the rupee. Is it not a general experience that gold in circulation is not readily available for export in times of weak exchange?—Not readily—yes, Sir.

3209. How much reliance would you place upon the gold currency in circulation as a support for exchange in times of crisis?—Your question was, if gold currency was in full operation.

3210. Yes, proceeding on the basis of a full gold standard?—I think if there were a full gold standard in full operation, the probability is that it would be forthcoming.

3211. You recognize, do you not, that it is only required in times of crisis?—Yes.

3212. Is it not common experience that, in times of crisis, the strongest instinct on the part of the uninstructed public is to part with any other form of currency medium sooner than part with their gold?—It is really a question, Sir, whether the circumstances would be such as to compel the public to part with their gold. If the balance of trado was against India for two or three years, the probability is I think that they would have to part with their gold. They would have nothing else to part with if gold was in actual currency, however much they wanted to hold on to it.

3213. In your opinion then not much weight is to be attached to the suggestion that in times of crisis, although the public may in the last resort be obliged to part with gold, they would sooner part with anything else?—I think that is so, Sir.

3214. In paragraph 9 you say you feel that it would be unsafe for Government to accept the full responsibility for the conversion of rupees into gold without in some way limiting tho issue of silver rupees. What form of limitation had you in mind? —We had in mind the curtailment of the total gross issue, just a cessation of issue of further rupees.

3215. Would you explain a little how that would relate to the special demand in India for rupees for the movements of certain crops at certain seasons. Must there not always be a certain amount of fluctuation in the total demand to meet these seasonal crop movements in dealing with the expansion or contraction of the rupee circulation according to the season?—We were assuming that gold would be used in support of silver as it has been in the past for the finance of these crops.

3216. That is the question on which we should like to have the benefit of your experience. Is it not the case that there are certain crop movements which, owing to the nature of the payments made and the habits of the cultivators, can in practice only be financed by rupee silver coin?—I do not think so now, Sir.

3217. Is it part of your proposal that, either concurrently with or after the introduction of the full gold standard, the rupee should be limited as legal tender?—No, Sir. We have not come to that conclusion. In fact I think it would be impossible to do so.

3218. Would you amplify a little the answer you have given. In what do you find the impossibility of limiting the rupee as legal tender?—It is in such very general use and in such large quantities that I do not quite see how one could limit its legal tender beyond a certain figure. I take it it would be quite a small figure if one created a limit at all.

3219. Then you base your opinion as to the impossibility upon the habits of the people as regards the use of the rupee?—Yes. I think they will have to be educated in the use of something else for a considerable period before it would be possible to consider anything of that sort. Even then I am not sure they will not want their rupees in some form.

3220. What you have just said tends to show that much gold would be likely to go into the popular reserve?—I think that it would go very slowly into circulation, not quickly.

3221. And I imagine you would reply that you should not limit the legal tender of the rupee until it had been substantially replaced by gold in circulation?—That is so, Sir.

3222. What evil consequences would you fear from the limitation of the legal tender of the rupee before the attainment of that period?—There would be nothing to take its place.

3223. It would be impossible to do that without at the same time offering, as we are assuming, the free substitution of gold for rupees?—At the beginning the free substitution of gold would not be accepted universally in India. It would take time for the substitution to be accepted.

3224. So that, even though you accepted the liability to substitute gold for rupees, the people would not take gold against their rupees and they would be left with the silver currency, which, as its uses have been limited by law, might be at a discount? In other words, you would be diminishing the store of value which they hold in the form of rupees?—I think the rupee is too much a standard of value to abolish it or to attempt to limit it except in the manner we have indicated.

3225. In paragraph 11 of your memorandum, in which you say that you appreciate the many and obvious difficulties in the way of the immediate attainment of that object, that is, a full gold standard, you recommend during the transition period a gold exchange standard and the creation of sufficient gold reserves in India for the attainment of the full gold standard. Could you amplify that a little by telling us in what manner you would provide for the accumulation of gold reserves against that day of the full gold standard?—You mean in what particular reserve it would be accumulated?

3226. Any suggestions would be of interest as to the mechanism by which the gold reserves might be accumulated?—Our suggestion was to accumulate gold in the paper currency reserve.

3227. What would be the nature of the operation?—It would be the issue of notes against gold, or, in course of time when the melting down of rupees is bound to occur, their replacement with gold.

3228. You would replace existing silver reserves by gold by selling the silver?—Yes, slowly.

3229. And for future increases of currency you would require gold for the issue of notes?—Yes.

3230. Would you also sell the existing sterling securities in the reserves?—No, not at first. The first operation would be the provision of gold in the paper currency reserve.

3231. In the course of time you would sell the sterling securities?—Yes, in course of time.

3232. Has it been possible for you to make any estimate at all of the period which would be required to accumulate the gold necessary for the safe introduction by these methods of the full gold standard?—No.

3233. I imagine you would reply that the period must be long enough to accumulate the necessary gold?—Yes.

3234. (*Chairman.*) It would be convenient at this stage if members asked any supplementary questions on the ground covered.

3235. (*Mr. Preston.*) Mr. Grantham, with regard to your last reply to the Chairman on the question of the acquisition of gold with a view to the ultimate bringing into force of a gold standard, the interest earned on the gold standard securities and on the securities in the paper currency reserve is I think about 2½ million sterling. If the interest was collected and was converted into actual gold and shipped to this side and we were to give a period of say 20 years, you would accumulate gold on this side of £50 million sterling. Would that meet with your approval?—Do you mean that you concurrently keep the gold exchange standard in London absolutely intact as it stands to-day and the securities in the paper currency reserve intact.

3236. The interest to date in so far as the gold standard reserve really was concerned under the old régime ought to be added to the gold here so that the gold standard was increasing. That method is not followed. I have assumed that that interest as collected is converted into actual gold; the interest also on the sterling securities in your paper currency reserve is converted; and assuming that the amount would be about £2½ million sterling actually converted into gold each year, there being thus no great drain on the gold reserve in London and that gold is shipped out to this country, in 20 years you would have a gold reserve of £50 million sterling?—I think I am right in thinking that the interest at present goes to the general revenues.

3237. I am not sure whether it really goes to the general revenues. Really speaking, the interest on gold standard ought to go to the gold standard, under the old ruling?—But at present it goes to the general revenues.

3238. (*Chairman.*) That is so.

3239. (*Mr. Preston.*) I believe that is so?—So that the cost of the creation of the proposed gold reserve fund would be a direct cost on the revenues of the State to be wiped off in 20 years.

3240. What would it actually cost you?—Without being able to give the matter further consideration, I think that would be too costly a method.

3241. (*Sir Maneckji Dadabhoy.*) There is a great sentiment in the town of Bombay in favour of gold standard. Is there not?—There is, yes.

3242. And is that sentiment shared by the European commercial community in Bombay as well?—Yes, our evidence is to that effect.

3243. (*Chairman.*) Your evidence is that the opinion of the Bombay Chamber of Commerce is to that effect.

3244. (*Sir Maneckji Dadabhoy.*) I am talking of the general commercial community. My question related to the sentiment in Bombay and the next question was whether that sentiment was shared also by the European commercial community?—In so far as the Members of the Chamber of Commerce are concerned, yes.

3245. The introduction of a gold standard in order to be effective must be introduced as rapidly as possible. That is so?—It is no use delaying it too long. I mean, spreading it over a long number of years, you will lose its importance or efficacy. The transition period, I am speaking of. Is it not so?—I think in answering that, we have to consider the question of cost as well. We should not be prepared to recommend the conversion into gold irrespective of cost, even though it might be admitted that the more rapidly it could be effected, the better.

3246. But even if it may cost a little more at the outset, would it not amply repay at any time that cost if it is done more expeditiously, I mean the introduction. That is, though the initial cost may be great, would it not amply repay?—It is rather difficult to answer that without having some idea of what the cost would be of introducing it rapidly. I have already replied to Mr. Preston's question. I think his suggestion might be rather costly, to build up a reserve of 50 million in India out of the general State revenues in 20 years.

3247. But any scheme would involve more or less cost. Have you any scheme to suggest which would involve the country in a less amount of cost?—We have no rapid scheme. The whole of our evidence is to the effect that it will have to be very slow, I mean the conversion.

3248. What is your serious objection to the question put by my colleague, Mr. Preston, with regard to the gold securities as well as the paper currency securities? What is your actual objection to that?—Our actual objection is purely one of cost, that the cost of that fund would be paid for by the State every year, instead of the fund being built up by automatic imports of gold.

3249. Will it be charged to revenue in that case?—The cost?

3250. Yes?—It must come out of the revenue. At present the interest on those funds goes to the revenues of the State.

3251. Have you any definite ideas regarding the amount of gold that would be necessary to accumulate to meet the demand at the outset?—No.

3252. Could you make any guess?—No, I could not answer that.

3253. Do you not think that the demand for gold now in exchange of the rupees is mainly due to the sentiment prevailing among the people that if they part with their gold, they will not be able to replace it immediately in times of dire necessity, and it is much better to hold gold as Government will not part with gold? Is not that the feeling which is underlying a demand for the hoarding of gold?—I am not quite sure that I understand that question.

3254. At present people hoard gold because they think that once they part with their gold, it would be difficult to replace it, because they will not get it back?—I do not think that I would attribute it to that reason. I would rather say that it is a more expensive metal and they recognise it, and as such they would prefer it if they could afford it.

3255. Probably I may tell you why I ask you this question. If the gold standard is introduced, people will understand that they can at any time at will, obtain gold for silver, while at present they know that the Government is under no obligation, and as a matter of fact, Government does not give gold for silver. Now the very fact of the introduction of the gold standard, would it not make a change in the sentiment of the people? And ultimately even in the transition stage you would not require so much gold?—We have already said that. We have said in our evidence that hoarding will gradually cease although it would in the first instance increase. But the ultimate effect would be a gradual cessation of hoarding.

3256. That is, confidence will be restored in the general public in the currency of the country?—Yes, people, I think, will never hoard so freely what they can freely obtain.

3257. Quite so. Is there a great deal of hoarding in the town of Bombay?—I should say there is hoarding; yes.

3258. Confined to what communities mostly?—I think one might say that the less educated people hoard more than the educated people. All the mill workers, for example, servants and others, have their gold or silver hoards in some form or other, whether it be necklaces or bangles and I suppose the bigger Marwaris also hoard.

3259. I should have thought that in a commercial city like Bombay, where money is constantly required, there would be less of hoarding than in any rural district?—That is quite possibly correct, but your question was whether there was hoarding in Bombay.

3260. To any appreciable extent?—It is very difficult to say.

3261. In paragraph 10 of your memorandum while discussing this question, you say, "My Committee are inclined to the view that the sovereign is too large a coin to circulate freely in India and they would prefer to see a smaller coin minted in India." What coin do you recommend?—A ten rupee coin.

3262. Ten-rupee gold coin?—Yes.

3263. Why do you recommend a small coin?—Mainly because the fifteen rupee coin as one of larger value might not be so easy to circulate. The ten-rupee note does circulate very freely.

3264. Has there been any difficulty experienced in the circulation of the sovereign in Bombay?—I do not think we had sufficient experience.

3265. You had not sufficient experience?—And the whole of this question is one of popularising a coin in order to make it circulate.

3266. Do you think that such an idea would be favourably received by the commercial community, I mean the trading community, who are generally accustomed either to a fifteen rupee sovereign or a gold mohur of a bigger denomination?—We were looking more from the point of view that it was necessary to find a gold coin that would circulate and be popular with the people of the country and bearing that in mind, we felt that a ten rupee coin would be more popular than a fifteen rupee coin.

3267. There would be no misgivings about a new coin being introduced?—That I could not say.

3268. There won't be any distrust about it?—I do not think there would be any distrust, once the people find that the Banya or the Marwari would take the gold coin and the contents of the gold were correct.

3269. (*Sir Maneckji Dadabhoy.*) Are there any special reasons; I mean as I understand, in the Dominions and other places, they have not got their separate coin, I mean gold coin, sovereign. Are there any special reasons in India from departing from this practice and in fact causing a severance in the link in a sense between Great Britain and India by having a new gold coin introduced in this country?

3270. (*Chairman.*) The witness said that the sovereign was too large a coin.

3270A. (*Sir Maneckji Dadabhoy.*) I am now putting the general question whether there are any special reasons, apart from that, for departing from the general practice?—No special reasons; nothing apart from that one primary reason that the smaller coin would be a convenient coin for circulation.

3271. Only on that ground? But I understood you to say the circulation of the sovereign was not sufficiently long enough to form any real definite opinion?—That was in Bombay. But apart from that, I do not think a fifteen rupee note would circulate as easily as a ten rupee note upcountry and that is vhat we had in mind. We were not considering the matter merely from the point of view of the city of Bombay.

3272. Asked about the banking system by the Chairman, you said that it was difficult really to find a banking system in India, perfect in itself and of such a magnitude and with such ramifications as to be a real potentiality in the country, at least if it is woiked for some years more?—For some years, yes.

3273. Considering the sentiments and the habits of the people?—Yes; that is so.

3274. (*Sir Henry Strakosch.*) Rather an important question is raised by the problem as to whether gold put into circulation is available in case of need for external payments. You mentioned, I believe, that you thought if there was a failure of crops, gold would naturally flow back and would therefore be available for export and therefore for external payments?—Yes.

3275. Now quite apart from that possibility there are other types of crises which one has to contemplate?—Yes.

3276. For instance, an internal crisis, a credit crisis, an external crisis, which would result in withholding the usual credit facilities to India, and then a combination of all three. Do you in all cases believe that the gold in circulation will be available for export, and therefore for stabilising the exchange?—Not in all cases, no.

3277. You would, therefore, say that apart from the gold in circulation there must necessarily exist a reserve to maintain the external stability of the rupee?—There must be some form of reserve, yes, which would be readily available.

3278. How big do you think that reserve ought to be?—I am not prepared to express any opinion as to the exact figure.

3279. Well, would you say it would have to be smaller or bigger than the present reserves?—Yes, without committing ourselves, I should say bigger.

3280. In other words you would need, in order to introduce a full gold standard with gold in circulation, the gold necessary to replace hoards, the gold necessary to form a medium of exchange, and on top of that a gold reserve sufficient to maintain in times of crisis the exchange value of the rupee?—When you say sufficient to replace hoards, do you mean the complete hoards of India or a portion of the hoards?

3281. Well, I should like to have your view on that?—We have not considered, Sir, the question of the total reserves that would be necessary. I do not think that in any case we should answer that it would be necessary to keep a reserve to cover the total liabilities under all three headings you mention. It would necessarily be only a percentage of those three liabilities.

3282. But would you explain why it should be a percentage and what percentage you have in mind?—I do not think I should be prepared to come down to the actual figure because we have not considered it, but what I meant was it would not be necessary to provide a gold reserve sufficient to replace the total hoards in India. I do not think the total hoards would be likely to come out, for example.

3283. You have no idea as to what amount is likely to be needed?—No.

3284. But, any way, you admit that there are these three points which have to be considered and have to be assessed before one can fairly commit oneself to so big an undertaking?—Yes, I entirely agree with you, Sir.

3285. Now I believe you mentioned before that you thought the bulk of the gold needed to establish a gold standard of that character should be imported through private channels. Did I understand you correctly?—Yes.

3286. Well, if you did introduce a gold standard with gold in circulation, I take it the Government would have to agree to give gold in exchange for rupees and for notes?—Ultimately, yes.

3287. The gold needed for that purpose will have to be provided by Government?—Yes, it will have to be provided out of their reserves.

3288. And it will have to be provided before they can possibly hope to sell the silver contained in the rupees that are flowing back?—(*Mr. Brent.*) Our idea was that it could be concurrent, that silver could be slowly sold and replaced by gold, not necessarily that the gold reserve would be fully accumulated before any sales of silver were made.

3289. But if you appointed a date which you would no doubt have to do from which onwards the Government would be prepared to give gold in exchange for rupees, do you think it would be prudent not to have accumulated a very substantial amount of gold to meet any demand for gold in exchange for rupees?—Of course; it would be impossible to do otherwise.

3290. Exactly. Therefore, you would have to keep a very substantial reserve available for that purpose?—Yes.

3291. You were saying, in answer I believe to Mr. Preston, that you did not like the idea of accumulating the interest accruing on the gold standard reserve securities for the purpose of building up a gold reserve. By what other process would you suggest that the gold should be accumulated?—(*Mr. Grantham.*) Wo take it a certain amount would be tendered in exchange for rupees to the Currency Office. The balance would have to be purchases of gold in course of time, I admit, by Government.

3292. Would you say that on introducing a gold currency in this country the note circulation would increase or decrease?—The whole question depends on whether it will circulate. Our opinion is that the note circulation would decrease.

3293. Now would you admit that if the note circulation were to decrease, that would produce a lesser elasticity in the whole currency system?—From what point of view.

3294. Well, if you issue notes on the basis of gold and, let us say, commercial bills, that kind of note currency can be expanded, and will expand in accordance with the real needs of the country for currency. If the note circulation decreases, to that extent the elasticity is lost because then you would only be able to get an increase in the circulation if further gold were imported from abroad, which of course depends upon the foreign trade of the country?—I think that is what we should like to see, the total circulation of currency expanding or contracting in direct relation to the foreign trade of the country.

3295. And, therefore, that the note should not remain as popular as it is to-day?—No, I do not quite say that. They would remain as popular; but surely there must be some decrease if gold is coming into circulation.

3296. But I understood you to say that, if gold were put into circulation, you would expect the note circulation to decrease?—Yes.

3297. Just one other point. Have you thought of the social and political effect of a very heavy drop in the price of silver concurrently with the possibility of a heavy appreciation in the price of gold, which means, in other words, a fall in commodity prices?—You have in contemplation the necessity of Government selling their silver?

3298. As it will have to do in order to provide the necessary gold?—I do not think, Sir, we can say we have considered the actual definite effect of the sales beyond our general statement that it would have to be a very slow conversion. That is why we have stated throughout that we would not favour a quick conversion into a full gold standard.

3299. But how could you control the pace at which the conversion should take place?—(*Mr. Brent.*) By regulation during the transition period.

3300. Let us take the moment when you give gold in exchange for rupees?—(*Mr. Brent.*) Yes, but we have not arrived at that yet. (*Mr. Grantham.*) That would be the end of the transition period.

3301. We have to contemplate that period?—(*Mr. Brent.*) Yes, but the reduction of the silver reserves; the conversion of the silver reserves into gold depends entirely on the method in which you propose to transact business during your period of transition. I mean to say, we do not contemplate for one moment that the whole of the silver reserves of India should be thrown on the market and realise whatever price they can in gold.

3302. Let me put it to you in this way. During the transition period silver rupees and notes will circulate as they are doing to-day; they will have to continue to circulate during the transition period because there is nothing else to take their place. Now when the transition period is over, will there be sufficient gold available?—We are assuming that sufficient gold has been built up in the reserves here to enable you to start converting.

3303. Yes. Now to acquire that gold you will have either to impose taxes, in which case the cost of that gold will be met out of revenue, or you have to contract a loan. But when you do offer to exchange gold for rupees, do you not think that the market, long before that happens, will anticipate there is a great deal of silver to be sold, and that the silver market will suffer a very severe depreciation?—It depends entirely on the method of selling. I mean to say if the sales are protracted over a period of years there is no reason why that should seriously affect the silver market.

3304. You do not think the market would anticipate that?—Indefinitely?

3305. I do not say indefinitely, but at that time, as is usual I think in all markets, markets usually discount events?—It depends entirely on what basis, what time-limit there is on the event. If a thing is likely to happen within the next year or two years.—Granted that is so. But if you have got a period, a very long period; we have no idea of what your transition period will be, but if we say for argument's sake it will be 20 years, do you think that is going to have a serious effect on the silver market immediately?

3306. I should like to have your views on that?—My personal view is that if the transition period is going to extend over a period of 20 years, it will not have any immediate effect on the silver market.

3307. Then you do not think silver hoards will come out in anticipation?—They might possibly to start with thinking they were going to realise prices before the Government of India started to sell; but I think they would be disappointed when they found nothing happened within 12 months or 18 months.

3308. So you anticipate nothing would happen in the silver market?—I do not think so, provided that the period in which these sales were carried out is sufficiently long.

3309. Now one other point. If the absorption by India of a large amount of gold does have an effect upon the purchasing power of gold, that would obviously affect Indian prices as it would the prices in any other Gold Standard country?—I think the same answer applies as in the case of silver. It depends on how and when the Government of India are going to buy their gold.

3310. It depends on how gradually it was done, and you propose to spread that over a period so as not to inconvenience the world?—That is the whole idea.

3311. Thank you; I have nothing more to ask.

3312. (*Sir Reginald Mant.*) Mr. Grantham, in paragraph 11 of your memorandum you recommend that a gold exchange standard should be in operation during the transition period. In paragraph 12 you say that during that transition period Government should undertake to convert rupees into gold or sterling, at their option, on demand. Is not that practically a sterling exchange standard and not a gold exchange standard?—It is, if the option is given, yes; but we recommend that in view of the fact that Great Britain is now on a gold standard herself.

3313. Therefore in using the term "gold exchange standard" you are basing it on the supposition that sterling will remain equivalent to gold?—Yes, that is our supposition.

3314. Do you contemplate that Government should also undertake to give rupees for gold?—Yes.

3315. During the transition period?—Yes.

3316. But you say that it would be necessary to fix both high and low gold points. I presume that

sterling would be freely purchased or council bills sold below the gold point, so there would be no inducement to people to import gold to obtain rupees? —No, there would be no inducement.

3317. So the Government would not, under that system, automatically accumulate gold reserves except by sale of silver?—It does not follow that there would be no gold imported; there would be imports of gold in spite of this system.

3318. For presentation to Government to get rupees?—Yes.

3319. I am assuming that it was cheaper for people to buy council bills or to sell sterling in order to obtain rupees. So long as you buy sterling below the gold point, what inducement is there for those who want rupees to import gold in order to obtain them? —(*Mr. Brent.*) That is simply a question of meeting trade demand, Sir.

3320. I do not quite follow?—I mean to say the importation of gold into this country is not necessarily dependent entirely upon the parity of gold between India and London or New York.

3321. We know that there may be large imports of gold; gold is being imported at present, but I want to know what probability there would be in the future of its being imported for presentation to Government in order to obtain rupees. Really I want to know what probability there is of Government accumulating a store of gold in that way under the operation of this sterling exchange standard?—(*Mr. Grantham.*) I do not see how I could give a definite answer to that, or say that a certain amount of gold would be imported; it must depend on trade conditions.

3322. Could you give us any information as to what happens to the gold that is being imported at present? There have been large imports of gold recently. Do you think that they are replacing silver rupees in hoards to a large extent?—(*Mr. Brent.*) I should think very probably.

3323. And do you think that process is likely to go on?—It depends on the price of gold very largely; if it is cheaper than silver. The native of this country undoubtedly prefers gold to silver as a form of hoarding; that is the idea that one has gathered from these very large importations that have taken place during the last two or three years.

3324. Assuming that the rupee is fixed, as you propose, at 1*s.* 6*d.*, do you think that that process will continue of gold replacing rupees in hoards?—It is very difficult to say; but the tendency would incline to lessen.

3325. Why?—Mere statistics of importations will prove that during the last few months in comparison with the same months of last year.

3326. That is rather a short period to take for purposes of comparison, is it not? Would it not take the market some time to absorb the imports of last year?—Yes.

3327. It is quite possible that there may be further large imports when that absorption is effected?—That is possible, yes.

3328. Loking forward for a period of years, do you think it is likely that the rupees in hoards will have been largely replaced by gold before the time comes for the introduction of your proposal for a gold currency?—That is a question that I should not like to answer or even to hazard a guess at. We have no knowledge whatever of the amount of hoarded rupees in this country.

3329. You do not think it probable that the store of gold in hoard will be largely increased in comparison with the hoards of silver?—It depends on the imports of gold to a certain extent.

3330. You cannot really give an opinion on that?—No, I could not.

3331. (*Sir Purshotamdas Thakurdas.*) Mr. Grantham, you said in reply to one of my colleagues on the other side that you thought that with gold in circulation note circulation would decrease?—Yes.

3332. Why do you think so?—Chiefly because the value of the note is closer to the value of the gold coin than to that of the rupee.

3333. Would those who take gold instead of notes use it for hoarding purposes?—I do not quite see the relation of that question to circulation.

3334. Nobody holds currency notes for purposes of hoarding; he holds that in the form of one or other of the two precious metals. Therefore whatever currency notes are in circulation are in active circulation. Why should that go down because there is gold currency available instead of silver coin?—I do not quite agree that currency is not hoarded in notes; I think a certain amount is hoarded in notes.

3335. You think there is hoarding also of currency notes?—I think so, yes.

3336. A very small amount?—Comparatively small; but still it is there.

3337. You think that should be taken into consideration for purposes of conversion when gold currency is put into circulation?—No; I should not call it a serious factor.

3338. Except for paper currency which may be hoarded, there is no reason why the paper currency should decrease when gold is in circulation?—It is a very moot point; but my impression is that the note would be replaced by some degree of gold if gold circulated.

3339. I think Mr. Brent said in reply to the Chairman that notes are sent up-country instead of bullion to move crops lately. Did I understand you correctly?—Yes.

3340. Could you give us an idea approximately of the increase in percentage of notes sent up-country from Bombay to move crops instead of silver bullion? —Do you mean direct from Bombay or from up-country banks?

3341. (*Sir Purshotamdas Thakurdas.*) I do not know what Mr. Brent had in mind.

3342. (*Chairman.*) We can get that from the statistics of the seasonal expansion and contraction of the note issue.

3343. (*Sir Purshotamdas Thakurdas.*) I thought Mr. Brent had some particular figures in mind?—(*Mr. Brent.*) It was only an answer to the question whether notes had replaced rupees to any extent in connection with the payment for crops; but as to what the actual amount is, I think nobody will be prepared to say. The mere fact is that notes are sent in payment of crops now, whereas in the old days it used to be necessary to send actual hard cash.

3344. And this popularity of currency note has been more in evidence since the outbreak of the war perhaps?—I should say undoubtedly.

3345. And the small one-rupee note was very popular before it was discontinued?—It was.

3346. In fact the discontinuance of it has been a source of complaint from many people, I am thinking more of the districts, not of the cities?—Yes; I should say so.

3347. In spite of that, if it is known that in exchange for paper one cannot only get silver but also gold, do you think paper would be more unpopular, or would you think it would be more popular?—More popular if you can get gold for it.

3348. Therefore I wonder if Mr. Brent would like to modify his reply a little when he said that with gold in circulation paper currency notes may decrease?—I think the answer to that question is the ratio of circulation of gold and notes, is it not?

3349. Would the ratio of notes come down from the present ratio?—It depends entirely on the popularity of gold circulation. (*Mr. Grantham.*) I think what we were getting at was this, that the gross circulation would be a fixed figure; if gold were introduced there would have to be a reduction in the note issue or silver, and we felt that notes would tend to decrease rather than silver. I do not see that that does not conform to Mr. Brent's answers. (*Mr. Brent.*) My answer to Sir Purshotamdas Thakurdas was that assuming the total issue to be a fixed figure the introduction of gold as actual currency would

cause a reduction either in notes or silver, and we felt that the reduction would come in notes rather than in silver.

3350. Do you mean at the start or, say, after six months after the people got convinced that they could get gold in exchange whenever they wanted?—At the start.

3351. Perhaps partly due to more curiosity and the novelty of the thing?—Yes.

3352. In reply to Sir Henry Strakosch, if I remember correctly, I think you said that gold in circulation may not return in all circumstances. In one of the paragraphs of your memorandum you say that gold in circulation is bound to return when oxchange falls owing to failure of crops (paragraph 8); but I think in further reply to a few of his questions you said that in all circumstances gold in circulation may not return. Could you tell me one or two instances in which case gold in circulation may not normally return to the treasury?—Yes; we were thinking of a crisis outside India.

3353. Not affecting Indian trade and commerce at all?—It would affect Indian credit.

3354. I mean if gold is in circulation or any currency is in circulation, it is bound to return, whichever is the largest proportion, is it not? If thero is a crisis outside which does contract credit here, which means there is a reflection of lower prices here, some of the currency has got to come back to the treasury?—I think our answer to Sir Henry Strakosch was that gold would be the last thing to return under those circumstances, not that it would never return.

3355. People would of course pay back the paper first, and the rupees if they had that; but when they have to pay back to the last point, they must pay up in gold?—Certainly.

3356. Therefore the return of gold would depend upon the proportion of the crisis?—Yes, on the actual urgency of the demand for the payment.

3357. You referred, I think, in reply to Sir Maneckji, to the fact that there was hoarding in Bombay and you referred particularly to the way in which the servant class held their ten, five or twenty rupees in cash and to the way in which they make ornaments with their savings. Do you really call that hoarding as it is referred to when the question of Indian currency and the amount of gold required is under consideration? Does not that represent the saving of that man?—(*Mr. Brent.*) Everything in a non-productive form is surely a hoard.

3358. There are two non-productive forms: one is ornaments and the other is cash. The ornament part is one which is guided more by social customs of the particular man or his community; for instance, a Hindu wife has to have a certain quantity of gold ornaments according to the present customs of the country—it may be right or it may be wrong, but the other is a cash sum which he could put into the savings bank and get a little interest, but which he does not; that is due more to the illiteracy of the people than to their innate taste for hoarding money in coin, is it not?—(*Mr. Grantham.*) That is quite correct.

3359. And it has nothing to do with his inborn taste to see gold or silver glitter in his own pockets? With education it would disappear gradually?—But surely he hoards more bangles or anklets than he need necessarily do under his family system.

3360. Would you call jewels and ornaments made with precious metals a form of hoard too?—I think it must be a hoarded form of wealth if it is out of proportion to the man's wealth.

3361. It is out of proportion when it is out of proportion to the minimum requirements of that person, having regard to his social customs?—Yes.

3362. Regarding the question of the banking habits of the people, you said in reply to the Chairman that the banking habits of the people would be developed faster if when they cashed a cheque they felt confident that they would get gold. Has the tendency of the people towards putting their money in banks anything to do with whether gold is available or silver?—You are referring to the up-country districts, not to Bombay?

3363. I think the Chairman's questions referred to the general banking habits of the people; but if you will you may divide it into two parts. if that would make it clearer?—Yes, I think, taking general up-country habits, it would make a difference if they knew that gold was obtainable.

3364. That means—I do not know if I am right, please correct me if I am not—that with gold currency the banking habits of the people would get a great impetus?—That is our impression.

3365. In reply to Sir Maneckji just now—Sir Maneckji used the phrase "sentiment of the commercial community of Bombay for the gold standard," and asked whether your Chamber shared that sentiment. I wish to ask for the purpose of record whether your Chamber have, in their written statement taken cognisance of what may be the sentiment of the Indian people but as far as your written statement is concerned sentiment has had nothing to do with it and you have gone on the basis of facts and figures, all the while taking cognisance of sentiments as they may exist among the Indian people?—Yes, that is so.

3366. There has been no sentiment underlying the evidence that you have given, at any stage?—Sentiment would only be one factor.

3367. You have taken cognisance of the sentiments that move the Indian people?—Sentiment is one of the factors.

3368. A very important factor too, I agree. But, as far as you are concerned, you have given your evidence purely from the business-like point of view?—Certainly we think that the gold standard would be better than the gold exchange standard.

3369. On commercial standards, with a commercial outlook?—Yes.

3370. Regarding the drain of gold on the resources of the world, if India came to a gold currency—at present even without gold standard and gold currency India is free to import whatever quantity of gold she requires, in fact has imported almost a record quantity last year—India could, even without the gold standard in future years, unless there was some other novel change made, get all the quantity of gold that she may require for private use. The additional quantity that may be required for gold coinage would represent after a period of five or seven years, comparatively speaking, a very very small increase on the takings of India at her sweet will for her private requirements?—You mean that the initial cost would be great but that thereafter——

3371. (*Sir Purshotamdas Thakurdas.*) I am not thinking of cost. I am thinking of the total quantity of gold which India will absorb with the gold currency.

3372. (*Chairman.*) I think the witnesses told us that they could not form an estimate of that.

3373. (*Sir Purshotamdas Thakurdas.*) If I may, I will put the question in one or two stages—perhaps I made my question too long. India does import freely gold that is required for the people in the form of bullion. There is no check on that. The only addition therefore which will be required in India would be for the purposes of currency, and that additional amount would not be very much after a period of years, when the people have been inspired with the fullest of confidence that they can get paper converted into gold for the mere asking by going next door. Would you agree with that?—(*Mr. Brent.*) Well, to put it in a very few words, what you mean is that there will be sufficient gold available to supply India for her needs as well as for currency purposes?

3374. There is sufficient gold to-day by private import, is not there? There is no check on that?—None whatever.

3375. Therefore, India can take all the gold which she likes for her own requirements. The only question is of the currency?—The question is at what price? I mean to say she only takes what she requires because she is prepared to pay the price for it.

3376. And she paid the price right up to Rs. 28 or Rs. 29. I do not know whether she paid higher—and as low as 21 as happens to be the case to-day?—Yes.

3377. Would the gold currency being in circulation, in a period of years, say five or ten after the currency is put into circulation, make a material difference to the total quantity which India may require for private use and for private hoards?—That would depend entirely ou how it circulates.

3378. (*Sir Norcot Warren.*) I understand that your Chamber would prefer to see the use of cheques rather than of currency notes encouraged in India?—Yes, that is so.

3379. In this connection you said that your up-country experience was that the poorer people could not distinguish between a sound bank and an unsound bank?—(*Mr. Grantham.*) Yes, the very poor people. I don't think they can read a balance sheet.

3380. No, they cannot read a balance sheet but they can obtain information and advice from those who can. Because my experience is they can distinguish and the only reason they bank with unsound banks is because of the greater facilities they get from those banks such as being allowed to open current accounts for small sums and to draw cheques for very small amounts, etc. Therefore they are more or less driven to those banks not because they are unable to distinguish between a sound bank and an unsound bank but because of the greater facilities they obtain from the latter?—I do not know that the question of distinction would arise; owing to their getting more facilities from the unsound bank than the sound, they would go to the unsound bank for that reason and no other.

3381. Do not you think, that, if a sound bank allowed them to draw cheques for Rs. 2-8 or Rs. 5, they would rather open accounts with sound banks?—Certainly, if they realised it was a sound bank.

3382. From experience I maintain that they do. What I want to get at is, suppose the Central Bank, instead of saying "You are not to draw cheques for under Rs. 50," allowed them to draw as low as Rs. 5, would not you then get all these accounts which are in unsound banks?—The question of facilities is raised again. I think that if greater facilities are given they would change over for that very reason. But I do not know that they would change over because one bank was sound or another was unsound.

3383. You mean to say that in the districts of India they do not know that what they call the Government bank is the soundest bank of all the banks up-country?—Yes, I think as regards the Government bank they would have some realisation but amongst a multitude of smaller banks I doubt very much whether they would realise.

3384. Do you not think they can distinguish between the Government banks from the small banks?—I think they would that. I did not have that in my mind when I gave my answer. My answer was given on the supposition that there were a number of small banks in operation.

3385. (*Chairman.*) Leaving for the moment your paragraphs on the ratio and before dealing with those arguments, I have one or two questions beginning with paragraph 17 of your memorandum regarding the Currency Department in which, subject to certain conditions, that is the absorption of the personnel of the Currency Department and the making of a fresh agreement between the Government of India and the Imperial Bank, your Association expresses the opinion that the transfer of the note issue to the Bank would result in advantages sufficiently solid to make the transfer desirable. In the first place, will you elucidate your proposal to some extent by telling us whether you propose that the transfer should be the transfer of the absolute control of the note currency and the reserves against the note currency to the Bank, or whether the transfer should only be of the management of the note issue acting as agents on behalf of the Government?—We mean complete control.

3386. Will you enlarge a little the final sentence of paragraph 17 by telling us what, in your opinion, would be the chief advantages of such an alteration?—The advantage to be derived from the closer union between banking interests and the issue of currency was at the back of our minds.

3387. You have in mind the unification in one hand of the control of the bank reserves of the country and of the currency reserves?—Yes.

3388. I take it that the advantages which you see in that are the advantages of getting rid of any lack of co-ordination which there may be in the existing division of control in hands which are not in perfect communication although they may be in consultation?—That is so.

3389. Have you considered whether you would recommend any changes in the constitution of the Imperial Bank as a preliminary to such a transfer?—No, Sir, we have not considered that.

3390. Understanding, then, that if you express any opinions they are only your personal opinions, have you any opinions upon that question?—No, I do not think I should be prepared to express any.

3391. Have you, Mr. Brent?—I do not think so, Sir, without giving the matter more thought than I have done yet.

3392. What is your opinion as to the advisability of issuing notes smaller in denomination than Rs. 5?—(*Mr. Grantham.*) Well, our Chamber in the past has opposed the issue of the one-rupee note, for example; they were in favour of its being taken out of circulation. Beyond that the Chamber has not considered the matter.

3393. Can you tell us on what grounds they were opposed to the one-rupee note issue?—As far as I remember, the question was looked at partly from the point of view of cost. We were told that the issue of the one-rupee note was expensive. It was looked at partly also from the point of view that the one-rupee notes in use were terribly dirty and insanitary, and consequently inconvenient to handle from the commercial point of view. Thirdly, we understood that a great many of these one-rupee notes were destroyed in actual use so that there was a grave wastage.

3394. What emphasis would you lay upon the argument in favour of small notes as against the argument to which you have referred against them, that the issue of smaller notes tends to economy, to the popularising of the note issue, and the promotion of confidence?—We should rather see the extension of banking facilities than of the note issue.

3395. You would look to the day of the small cheque rather than to the day of the small note? Which of those two methods can more readily be promoted amongst the uneducated people of the countryside?—The first would be the more quicker and the more readily attainable.

3396. In paragraph 19 on the Currency Department you say that your Committee would prefer the automatic increase in the volume of currency to any system giving a slow and steady annual addition irrespective of the volume of trade. Could you outline what machinery you would recommend for the provision of an automatic increase in the volume of currency, with special reference to seasonal expansion and contraction?—I think in answer No. 19 we had in mind the complete gold standard which would give an automatic increase.

3397. In this particular paragraph you were referring to the fundamental characteristics of the two standards?—Yes.

3398. Then might I ask you a general question? Have you any suggestions to make as to the best machinery to be adopted under an exchange standard system for the seasonal expansion and contraction of currency?—I do not think we have any suggestions to make over and above the one which we have made in our memorandum in parapragh 24 regarding the possibility of using demand trade bills

or hundis. That is the only suggestion we are prepared to put forward over and above the system at present in use.

3399. Then I understand from paragraph 24 that your Association recommends that the seasonal expansion and contraction should be provided for by the re-discounting of upcountry trade bills or hundis?—Yes, that is what we should like to see.

3400. I do not quite gather the force of the supplementary paragraph to No. 24. Might we put it in this way: that you are opposed to direct discounting by the Imperial Bank but that you are prepared to admit that it may be a necessity?—It may be a necessity as far as the demand hundis are concerned.

3401. Could you amplify that answer a little? It is not quite clear to me what the distinction is?—(*Mr. Brent.*) The expansion is so far confined to the discounting of three months' bills. A very large amount of trade advances are given on a demand basis and if a percentage of these were utilised as security for the seasonal expansion, it would undoubtedly be an additional means of doing so. At present they are not touched at all.

3402. Your recommendation is that the present procedure should be amended by permitting the direct discounting of a certain percentage of demand bills?—That is so, Sir.

3403. On the gold standard reserve I gather also you recommend that the control of the gold exchange standard reserve, as long as one is in existence, should be in the hands of the Imperial Bank?—Yes, that is so.

3404. Have you considered the advisability or otherwise of a unification of the two reserves into a single reserve, assuming the transfer of control to the Imperial Bank?—That has not been considered by the Chamber.

3405. The memorandum, therefore, proceeds upon the assumption that these reserves are to be kept distinct?—Yes, until such time as there should be a complete gold standard.

3406. Did this recommendation proceed upon the assumption that it is necessary that the two reserves should be kept separate?—We felt it was necessary that there should be a reserve as long as there was a gold exchange standard in operation, and I should not be prepared to say that we would like to see them combined with any other reserve.

3407. Could you assist the Commission at all by telling us what your reasons would be for disliking to see a combination of the two reserves?—I think we should feel that the paper currency reserve was a backing against the currency and the gold exchange standard reserve was a reserve purely to be used for the support of exchange, and that it would be dangerous to combine the two so that the gold exchange standard reserve might be possibly used up for other functions.

3408. Let me put this possibility to you. An estimate of the extent to which the silver rupee currency is contractible might be made. That possible contractibility might be accepted as a liability against the assets of a combined reserve. The assets of the gold standard reserve might then be combined with those of the paper currency reserve. Thus the end might be attained of a combination of reserves ensuring the automatic contraction and expansion of currency. At the same time it might be said as a full recognition that the assets of the gold standard reserve had to protect the external value of the rupee. Would you be prepared to express any opinion as to the possibility or advisability of such an arrangement?—I do not think we can express any opinion as we have not discussed it.

3409. On the subject of remittance, again I feel that the precise nature of your recommendation requires a little elucidation. You express the opinion that the Government remittance should remain under Government control. Are you of opinion that, if a proportion of the note issue and the reserves, including the gold standard reserve, were transferred to the Imperial Bank, it would be an essential condition, in order to enable them to discharge the functions, that they should also be in practical control of the Government remittance business which is so large a part of the total volume of dealing in sterling exchange?—(*Mr. Brent.*) It is on that assumption that we have put forward our suggestion—not complete control, but partial control.

3410. Can you explain how you would divide the control and responsibility as between the Government and the Imperial Bank?—Well, a suggestion was put forward that so far as the Government home charges required, they might be divided up into quarterly requirements or even monthly requirements, and to that extent the Imperial Bank should have complete control. Our main object in view was to avoid disturbances in the exchange market by the possibility of the whole year's requirements being taken at once.

3411. I gather, then, with regard to the nature of the arrangements between the two parties that your proposal is that the Government should specify monthly their requirements to the Imperial Bank, and that it should be the business of the Imperial Bank to fulfil the Government's requirements?—That is so, but we do not necessarily confine them to monthly requirements; I mean that is simply an idea; if quarterly requirements are more suitable, then to that extent complete control.

3412. That is, there should be periodic specifications to the Imperial Bank as to the Government's requirements, and it would then be the business of the Imperial Bank to fulfil them?—Yes.

3413. That would satisfy your requirements as to the maintenance of substantial Government control?—Yes.

3414. You recommend that the business of remittance should be effected by means of public tender on the grounds (*a*) that it would be more equitable and (*b*) that it would promote a greater feeling of confidence in the minds of the public. Would you explain to the Commission (*a*) in what respects it would be more equitable and (*b*) in what respects it would promote a greater feeling of confidence?—(*Mr. Brent.*) Taking equity first, up to the present, Government purchases in this market have had no definite control and it has been at Government's own option as regards the amount purchased or the rate raised and there has been a certain amount of feeling as to what the next step was going to be, whereas public tender would eliminate that to a large extent.

3415. Everybody would have an equal chance?—Exactly.

3416. There could be no suspicion of either preference for one source of supply or another or of the bank not doing as well as it might?—Yes, that is the idea.

3417. I do not know whether that needs supplementing as regard the feeling of confidence?—I think the one answers the other.

3418. (*Sir Reginald Mant.*) You contemplate, do you not, that the management of the Currency Department should be transferred to the bank during the transition period?—(*Mr. Grantham.*) Certainly, straight away.

3419. Straight away, i.e., at the beginning of the transition period?—Yes.

3420. And the bank should immediately undertake the responsibility for giving gold or sterling in exchange for rupees?—Yes.

3421. And do you think they could safely undertake that responsibility?—Yes.

3422. I take it you contemplate that the present reserves, the currency reserve and the gold standard reserve, should be made over to the bank?—Yes.

3423. And do you consider that with those present reserves they could safely undertake this responsibility?—I think yes.

3424. One other question as regards the tender system. Do you contemplate a system of tender in India or would you revert to the practice of selling council bills by tender?—(*Mr. Brent*) We contemplate a tender system in India.

3425. You think that it would be feasible?—I think so, yes.

3426. Now you will have to collate them in one centre, I presume; where would you collate them?—Why one centre? You may have your three large commercial centres, Calcutta, Bombay and Madras.

3427. The tenders would have to be collated somewhere?—Yes; the tenders would be handed in at each centre and the results will be published the next morning.

3428. Would you have separate tenders in those different centres?—I see no reason why you should not have them. It will facilitate matters so far as trade is concerned.

3429. Would you ask all to tender for the full amount?—Tender for what they wanted.

3430. I mean would you distribute the amounts between those three centres, i.e., allot so much to Calcutta and so much to Bombay and so on?—No, I do not think it will be necessary. It will be a question of allotment of percentage on application.

3431. Then the tenders would have to be collated at some centre?—Oh, yes. Quite so. But I mean to say there is no necessity why the tenders should only be applicable to one centre.

3432. The tenders might be received at different places but they must be collated at some one centre?—Quite so, certainly, so that it will be an equitable distribution.

3433. You do not think there will be delay caused by collecting them at one centre?—There should not be unnecessary delay. Cable communication for Government purposes is fairly rapid in this country.

3434. (*Sir Henry Strakosch.*) With reference to paragraph 24 under the head "Paper Currency Reserve", you differentiate between re-discounts and discounts by the Imperial Bank of India and you are penalising the discounts by saying that they should not be allowed to form the basis of the note issue. May I ask you whether you consider that condition an essential one, having regard to the fact that the Imperial Bank when it is turned into a real Central Bank will have to control the credit policy of the country and fix the bank rate?—It is not customary in all central banks that in order to enforce their policy these banks are permitted to discount; but as a matter of practice they never do it unless they are forced to impose upon the community their policy.

3435. Yes, but is it not possible that the policy of the commercial bank, if I may call it so, may run counter to the policy of the Imperial Bank, and that, for that reason, in order to keep control of the credit market, the Central Bank may have to intervene by discounting direct?—(*Mr. Grantham.*) Without further consideration we shall have to say "no" to direct discounting.

3436. Although that may impair the power of the Central Bank to manage the money rates of the country?—I think so.

3437. May I put to you a case? Usually the bank rate is somewhat above the market discount rate. Well, it is conceivable that when the market rate has risen to the bank rate commercial banks will nevertheless refuse to discount at the bank rate. Do you suggest that in those circumstances, the Central Bank should not intervene and discount at its rate?—Rather than put up its rate?

3438. Why should it put it up if the Central Bank considers that the rate is high enough?—It is a difficult question to answer without further consideration.

3439. Then upon another subject: You say in that same paragraph, I take it to supplement the possibility of expanding the currency, you would recommend the use of demand trade bills for discount by the Imperial Bank. I am not quite clear what you have in mind. Demand bills, as I understand them, are not discountable because they are payable on demand?—(*Mr. Brent.*) That is perfectly true; but a very large percentage of seasonal demands, financing of cotton particularly, is done on a demand basis; the bank has the option of calling the loan up at any time; but it does not generally do so. Moreover the demand hundies from up-country may take two or three days to reach Bombay.

3440. I can understand that; that is, three days discount. But what I cannot understand is how you can discount a demand bill. How many days would you reckon in discounting those bills and how many days would the holder consent to be charged?—The idea was not to attempt to utilise the full amount of demand bills available but a very small percentage. I mean even 10 or 15 per cent. of demand hundis utilised as security against advances would be ample.

3441. I am afraid my question is not answered. I would like to know how a bank is to deal with demand bills in discounting them. How could it discount demand bills?—I mean to say, they are bills as collateral security until they are paid; are they not? If you were in possession of half a crore demand bills and you wish to take 10 lakhs advance against them, you could hand those half crore over as collateral security against your 10 lakhs advance, it would be perfectly permissible.

3442. Where I still do not appreciate your suggestion is this: Let us suppose I were to hand over to the bank a demand bill, the bank would in the ordinary course present that bill immediately for payment?—Yes; but it does not in the ordinary course.

3443. If it does not, then of course it bears a loss of interest; so long as it does not get paid, it bears a loss of interest?—But these demand bills all carry interest.

3444. Now I want to know how much discount is it customary to allow on demand bills, a fortnight, month, three months, or six months?—It will be anything from one day to six months.

3445. At the choice of the Bank?—Yes.

3446. And then, they simply deduct their discount from the demand bill on the understanding that the demand bill will not be presented until three or six months hence according to the rate; is that it?—According to their own arrangement, with the drawer of the bill.

3447. So that, in other words, it is nothing else but an ordinary commercial bill drawn for a longer period except that it is not stated on the bill?—Yes.

3448. Would you tell me why they are drawing those demand bills and not bills for the date?—The banks insist upon it. They are in a position to demand payment any time they like.

3449. And yet the holder of the bill agrees to a deduction of whatever may be agreed?—Yes.

3450. (*Sir Maneckji Dadabhoy.*) In discussing these Government remittances in paragraph 20, clause 2, your Chamber is of opinion that "Government remittances should be effected by means of public tender, either in London or in India, rather than by private purchases of sterling." Am I to understand this your scheme of remittances excludes the power of the Secretary of State for drawing bills for trade purposes, selling bills for trade purposes, for the accommodation of trade?—(*Mr. Grantham.*) Not as long as he sells them by public tender.

3451. Then in the case of accommodation for trade purposes you would also give him the same power to do it by public tender?—Not the Secretary of State. We have stated here that Government remittances should be controlled by the Imperial Bank.

3452. In London or in India?—Whether the remittance was to be effected here or in London it would be done by the Imperial Bank.

3453. But if the scheme regarding the transfer to the Imperial Bank fails and if Government remittances are to be continued, would you give the Secretary of State power to sell council bills for purposes of trade also?—Yes.

3454. And in that case you would require that to be done by public tender only?—Yes.

3455. Does any other country do this for purposes of trade?—I don't know, Sir.

3456. (*Chairman.*) Now turning to the paragraphs on the ratio, the conclusion at which your Committee has arrived, as expressed in paragraph 16, is that it is desirable as soon as possible to alter the ratio from its present 2 shilling level to that of 1s. 6d. Should I be summarising the arguments expressed in your memorandum if I were to say, in the first place, that this rate should be adopted because it would cause the least disturbance?—Yes, that is so.

3457. And, in the second place, because it provides a bigger margin than a lower rate to cover any rise in the price of silver?—That is so, Sir.

3458. Let me see if I have followed the argument as expressed in your memorandum step by step. A rise in exchange means an increase in the gold value of the rupee, and that results in a fall in the internal prices of agricultural produce. The second step is that the cultivator gets less for what he sells, so that he has to devote a bigger proportion of his produce to paying taxes and land revenue. That is the next step as the result of a rise in the exchange?—Yes, Sir.

3459. But, as I understand it, the fall in prices is ultimately general, so that the cultivator thus pays less for what he has to buy?—That is so far as what he buys is concerned.

3460. So that ultimately, after a sufficient period of readjustment, the family budget should be the same as before?—I do not think we could say that absolutely, sir, because we are not sure that internal prices have moved entirely with external prices.

3461. No, but allowing a sufficient period for adjustment, you would say, as I gather from your memorandum, that that would be the tendency?—As regards all commodities whose prices would change according to the exchange rate, but that omits what you mentioned just now about taxes and the land revenue.

3462. What are the principal commodities he would buy which you would expect to react slowly in their price to the effect of a rise in the exchange?—(*Mr. Brent.*) For example, cotton goods would be affected very largely by external prices. It is really the internal goods that are not to any degree exported that would be the last to be affected, I think.

3463. Are those mostly goods which he sells or which he produces?—There are a certain number of goods that have to be bought in this country the prices of which are not affected very largely by external prices.

3464. What have you in your mind?—Well, I mean his local requirements, of certain types of food grains, that do not figure in the exports of India. (*Mr. Grantham.*) Bajri, firewood, salt.

3465. These food grains and so on are the commodities of which the cultivator in question is the actual producer?—(*Mr. Brent.*) Not always, Sir.

3466. If you generalise the whole class of cultivators?—But the man who grows cotton does not necessarily grow *bajri.*

3467. Taking it as a general effect, and making allowance for what you say as to the failure of goods which are produced at home and consumed at home to react, I understand your general analysis is that, after a temporary detriment to the cultivator as a producer, there is a substantial readjustment?—(*Mr. Grantham.*) In commodities, yes.

3468. And in their prices. Let me ask you on that: are you of opinion that, as regards these articles which may be of importance in the family budget which are produced in India and consumed only in India, the change of the general price level between them and goods which enter into the external market has no effect upon the prices of these goods of internal production and consumption?—But surely that question is one of supply and demand.

3469. Other things being equal, the supply is unchanged and the demand is unchanged?—Well it would have the same effect, but not a complete effect.

3470. Now turning to the other side of the picture, the result of a fall in exchange will be the converse of what you have dealt with in regard to a rise in exchange. It would produce a temporary benefit to the producer in the manner you have described in relation to these articles of special production and consumption, but that benefit would tend to be a temporary one as prices readjusted themselves to the new level of exchange. It is really only the converse of the analysis which you have given?—Yes.

3471. These would be the disturbances which would arise from a fall in exchange, and it is those disturbances which you desire to avoid by fixing the ratio at the present level of exchange?—(*Mr. Brent.*) That is so.

3472. That implies, as I gather, that you are of opinion that the present price level in India, as compared with general world prices, has substantially adjusted itself to the present level of exchange?—(*Mr. Grantham.*) Yes, I think it has, Sir, but it is very difficult to make an answer to that.

3473. And, finally, you express the opinion that you feel reasonably confident, now that the United Kingdom has returned to a gold standard, that the low gold point of 1s. 5$\frac{31}{32}$d. can safely be maintained. Would you care to amplify the reasons which led you to that conclusion? For instance, does one infer from that opinion that you do not look for any violent dislocation of the price level in the principal industrial countries in the near future?—Yes, that is the implication and the reserves would appear to be sufficient to cope with any smaller adjustments.

3474. To complete the picture from the Indian point of view, you are of opinion that the reserves are sufficient to cover any fluctuations in demand and supply of relative currencies such as are likely to occur?—Yes.

3475. (*Chairman.*) Are there any supplementary questions on the ratio aspect?

3476. (*Sir Maneckji Dadabhoy.*) In your scheme, of course you have recommended a gold standard and the adoption of the lower ratio of 1s. 4d. would facilitate the introduction of the gold standard to a certain extent, wouldn't it?—(*Mr. Grantham.*) I cannot see why.

3477. Well I can give you an illustration. If the ratio be 15 to 1, the drain on Government will be considerably less for the purpose of converting silver into gold than if the ratio be 1 to 13$\frac{1}{3}$?—I am afraid I do not follow that.

3478. You see if there was a gold standard introduced Government would have to meet the conversion of silver rupees into gold. If the ratio fixed is at 15 to 1, or 1s. 4d., you will require 15 rupees to get one gold mohur or one sovereign; but if the ratio is kept a higher ratio you will obtain a gold mohur or sovereign for Rs. 13 and one-third. So the drain on Government will be in that way considerably less. I mean the drain on gold?—Yes, that is so.

3479. Would it not therefore be in the general interest to keep the lower ratio as far as possible?—I do not think one can look at it from one aspect solely; we were looking at it from the point of view of general disturbance.

3480. To other countries?—To India.

3481. Would not that general disturbance adjust itself in a measurable distance of time? It would not remain a permanent feature?—But the immediate effects may be very serious, whatever the ultimate effect may be.

3482. You think the difference between 1s. 4d. and 1s. 6d. is so great as to cause a serious immediate effect? Am I to understand that?—Yes.

3483. I cannot reconcile two of your paragraphs: in paragraph 15, clause (2), you say, " In discussing this matter my Committee have given the fullest consideration to the question whether a change in the ratio of a token coin involves any section of the people of India or any part of India's commercial activities in hardship or loss. . . " and then you continue " and inasmuch as my committee are of opinion that a country's main obligation is to its internal debtors they agree that every effort should be made to stabilise exchange at a figure as near the original ratio of 1s. 4d. as possible "?—That is quite consistent with what we have already said here, that the disturbance through getting any nearer than 1s. 6d. would be too great.

3484. So here when you contemplate a nearer ratio to 1s. 4d., am I to understand that you contemplate 1s. 6d., as stated in paragraph 16?—Yes.

3485. On that basis, of course, I could understand it, not otherwise?—That is so.

3486. In contemplating this ratio of 1s. 6d., does your Chamber take the price of silver at a fixed point?—No; we have contemplated that silver may fluctuate.

3487. And therefore you provide a margin?—A small margin, yes.

3488. You are aware that we have been able to keep this ratio at 1s. 6d. because India had the unprecedented good luck of five good harvests; you are aware of that?—Yes.

3489. Suppose a famine takes place in the country, what would be the effect?—I do not quite follow that question, because once the ratio is fixed on a gold basis neither famine nor anything else should alter it again.

3490. So far as internal conditions are concerned? —The idea is to fix your ratio on a proper basis; famine should not then alter it.

3491. But will not the internal conditions be affected by it?—We hope not.

3492. Proceeding, you enumerate three reasons, namely, a large expansion of the currency, a rise in the internal price level, and, lastly, losses to Government in connection with the payment of home charges, external debt, &c., which might or might not be balanced by increased duties and greater prosperity. We will not discuss the last point; but tho first two, (*a*) and (*b*), are your concrete reasons for fixing the ratio at 1s. 4d. or as much as possible near 1s. 4d.?—I cannot see that we should be frightened; we are practically having 1s. 6d. at the present moment.

3493. Am I to understand that your Chamber is of opinion that the time has arrived in India now for fixing definitely the ratio at 1s. 6d.?—Yes; we think it should be fixed and that it would be a benefit to trade to fix it.

3494. (*Sir Maneckji Dadabhoy.*) You think the monetary conditions in Europe are fairly settled?

3495. (*Chairman.*) That is what the Committee have said in paragraph 2: " My Committee are unanimously of opinion that the time is now ripe for an attempt." Then the memorandum refers to the uncertainties consequent on world gold values. We asked the witnesses about that and they referred to the American situation.

3496. (*Sir Maneckji Dadabhoy.*) I only wanted to find that out, Sir. That is all I have to ask.

3497. (*Sir Purshotamdas Thakurdas.*) The temporary period of transition for readjustment after the rise from 1s. 4d. to 1s. 6d., do you think that it is anywhere near complete, that that period is now finished and that the adjustment has taken place in India?—Yes.

3498. Both regarding the commercial world and the industrial world? Or only in the commercial world?—You are talking of the price level.

3499. Yes. What I mean is, as it affects local industries and as it affects the grower. I think your first reply " Yes " referred to the grower; would you say that it refers also to the industries?—Your question was whether the price level had settled down, not what its effect on industry would be.

3500. You think that the price level has settled down, and that the temporary transition period for adjustment of prices can be regarded as complete?—I think very nearly complete.

3501. You think that can be said to be quite accurate regarding the industries where the adjustment of a fall in wages has not yet come about?—I do not follow the application of that point.

3502. Regarding industries, with the increased value of the rupee there has not been a corresponding decline in the wages?—But I do not contemplate that there will be a fall in wages in India in industries in accordance exactly with the fall in prices. I think it is most improbable.

3503. Would not the industries to that extent be worse off?—They might quite conceivably be worse off, but I think the tendency will be for wages to rise rather than the reverse.

3504. Would not that accentuate the handicap on the industries?—It might, but I cannot see what that has to do with the ratio.

3505. The gold value of the rupee having increased, the imports will be able to compete with the local industries much better?—Quite right, but reducing the ratio would not stop wages rising.

3506. No; they may go higher; that is your fear? —That is my fear.

3507. You think that if exchange was practically at 1s. 4d. the cost of living would rise and there may be a further increase?—I am afraid the wages might rise anyhow, irrespective of this question of the ratio. My point is this, that I do not think wages would automatically rise and fall as exchange rises and falls in inverse ratio. I do not think the two are connected to that extent.

3508. There would be a continued maladjustment between exchange and the wages payable in India?—That is quite possible.

3509. Does that also apply to wages for agricultural purposes?—I do not think I am sufficiently acquainted with agricultural wages to answer.

3510. Now, supposing it was correct that the wages of agricultural labourers has not declined since the rise from 1s. 4d. to 1s. 6d., do you think that the adjustment as far as the grower is concerned is still incomplete?—I do not know what governs agricultural wages; it may be the same principle that governs industrial wages; there may be a tendency throughout India for wages to rise.

3511. Supposing that was so—that is just what I am asking you to do, taking that for granted: from a statement I have seen, it is reported that wages of agricultural labour have not gone down since the rise of exchange to 1s. 6d. To that extent do you think that the adjustment is incomplete?—I do not think one could say the adjustment is incomplete, for the rise in wages was not entirely due to the rise in exchange or a fall in exchange.

3512. If the wages to-day were the same as in 1920-21 or 1921-22, do you still think that the harm to the agriculturist is adjusted?—I would put the question into two categories. The first is whether there has been an adjustment of prices. The question whether there is harm to the agriculturist through a rise in exchange is another question. I do not see that the two have any real connection.

3513. Your reply was that you thought that the adjustment in prices was complete?—In prices, yes.

3514. Now, if the adjustment in prices is complete this year, a change from 1s. 6d. would not be desirable or rather would not be necessary in the interests of the grower?—Yes.

3515. But if the grower still continues to pay the same wages as in 1921-22? I would request you to take that for granted for the sake of this argument because you say you have yourself no information about it; would you then under these circumstances say that the adjustment so far as the grower is concerned is not complete?—I would not answer it that way because I still cannot see that the rate of wages in India is governed either by prices or by the rate of exchange.

3516. Not even as far as the grower is concerned?—I would not be prepared to say so; I do not know enough of agricultural wages.

3517. Shall we take it this way, taking the question of wages working independently, if the wages do not come down and owing to increased price of the rupee the agriculturist gets lesser rupees than he got two years back, do you not think that the damage to the agriculturist is considerable?—We have already said that if there is not a complete adjustment the agriculturist would suffer.

3518. I knew you had said it here, and that is why I was just bringing it to your notice?—(*Mr. Brent.*) Against that it is pointed out that the disturbances which might emanate from the change would possibly have a greater effect than the reduction to the old level.

3519. (*Chairman.*) I want to ask one question to clear my own mind upon your last answer, Mr. Grantham. As I understand it, you are of opinion that there are other factors affecting wages industrially and possibly agriculturally in India in addition to the factor of the rate of exchange?—Yes.

3520. So that when one looks at the movements of nominal wages, one must not draw any simple deduction from those nominal rates as to whether the effect of a change in the rate of exchange has yet made itself fully felt upon the rate of nominal wages?—Yes, Sir; that is what I meant.

3521. Because it may be thought that, although the nominal rates do not show it, the effect is there, but it has been masked by some other effect?—Yes.

3522. On a subject of interest, can you suggest in a few words what the other factors are which you consider are at present affecting the rates of wages industrially?—I had in mind, Sir, industrially that Indian labour was being constantly educated up from outside India with the idea that it was being paid too little.

3523. That is, the general education of labour to better itsolf?—Yes, and that was having a very marked effect on the wages question.

3524. Is improved accommodation having any effect on it?—There is a slight tendency to better conditions, but it is not very marked yet.

3525. (*Chairman.*) On behalf of my colleagues and myself I thank you for your very full assistance today, and for the very helpful memorandum of your Association.

(*The witnesses withdrew.*)

ELEVENTH DAY.

Tuesday, December 8th, 1925.

PRESENT:

THE RIGHT HON. EDWARD HILTON YOUNG, P.C., D.S.O., D.S.C., M.P. (*Chairman*).

Sir NORCOT HASTINGS YEELES WARREN, K.C.I.E.
Sir REGINALD MANT, K.C.I.E., C.S.I.
Sir MANECKJI BYRAMJI DADABHOY, K.C.I.E.
Sir RAJENDRANATH MOOKERJEE, K.C.I.E., K.C.V.O.
Sir HENRY STRAKOSCH, K.B.E.
Sir ALEXANDER ROBERTSON MURRAY, C.B.E.

Sir PURSHOTAMDAS THAKURDAS, C.I.E., M.B.E., M.L.A.
Professor JAHANGIR COOVERJEE COYAJEE.
Mr. WILLIAM EDWARD PRESTON.

Mr. A. V. V. AIYAR, C.I.E. } (*Secretaries*).
Mr. G. H. BAXTER. }

Mr. B. F. MADON called and examined.

3526. (*Chairman*). Mr. Madon, you are, as we are aware, a careful student of Indian currency questions?—I try to be, Sir.

3527. You have been kind enough to provide us with a very full and detailed memorandum* of your views upon this subject, which will save us, if I may say so, much time in obtaining the benefit of your assistance on these points. I will ask you to assist the Commission by answering a few questions to enable us to ascertain just where you lay emphasis on the views which you have developed, and also to elucidate any points which seem to require further elucidation in your memorandum. We understand that in general you favour the abandonment of the pre-war standard of currency and the introduction of new methods which you describe in your memorandum?—If I may be permitted to point it out, I do not mean the pre-war standard, I mean the pre-war system.

3528. I want, if I may, to ask you to consider with me for a moment the pre-war system, and to assist me in understanding just what the defects of that system were and how they can be remedied. I should point out that my first questions will be directed to ascertaining whether, in your opinion, the main defects of that system are not remediable by the adoption of an improved exchange standard system. Would you agree that one of the defects of the pre-war currency system was that the maintenance of the system was dependent on the price of silver remaining at such a figure that the bullion value of the rupee was not higher than its exchange value?—No, Sir, I don't agree that that was a defect of the pre-war system.

3529. Then there is no defect to be remedied there?—Not as regards the price of silver, because if you will allow me to point out, the rupee has been throughout recognised, as soon as we closed the mints, as a token coin, and that, in your system, that was recognised in 1893, it was again recognised in 1898, and it was again very clearly recognised by the Chamberlain Commission and even by the Babington Smith Commission. If it was a token coin, then the solution with regard to the price of silver should be the solution which practically every other country had to adopt and did adopt when their token silver coins went over the silver bullion parity. It is not only India that had to do it. The Straits had to do it, Japan had to do it, the Philippines had to do it, and during this war even England had to

* Appendix 17.

do it. So I would urge that the emphasis laid on the price of silver is wrong and that the right solution was to change the proportion of silver in the token or to stop giving silver coins altogether and only give notes as was done actually by many countries.

3530. I think I follow your opinion. You recognise, of course, that the system is liable to disturbance from a sharp rise in the price of silver, such as may bring the bullion value of the rupee above its token value?—Yes, Sir, provided it is taken for granted that the coin should remain as it is. If, as I take to be the right view, it is taken that the value of the silver in the coin has nothing to do with it, then the right step would be, as soon as it was found that the coin was likely to exceed its bullion value, to change the fineness of the coin so that this excess may not occur.

3531. Precisely. But some alteration may be required if the rise in the price of silver were of such an extent as to put a premium upon the melting down of silver currency?—I agree.

3532. In your opinion there should be no hesitation, in view of ultimate currency principles, in substituting another intrinsic value for the silver rupee as you point out was done in other countries?—Exactly, that is what I mean.

3533. Will you tell us what, in your opinion, and from your wide experience of the sentiment amongst the uninstructed classes of India, would be the social reactions upon the uninstructed of a change in the intrinsic value of the rupee? Do you think it would be accepted without difficulty?—Well, Sir, if you simply ask an opinion, then it would be one opinion against another. But if you go by experience, then I would point to the experience of Java and China, where the populations are equally uninstructed and equally liable to suspicions and still the thing there worked almost immediately. And the case of Egypt is much more to the point. Egypt has a population which is perhaps a great deal more turbulent, a great deal more ready to resort to violent methods than the Indian population is, and in Egypt inconvertibility was declared almost the very first day that the war began and notes circulated freely and there was absolutely no trouble. So far as the individuals within a country are concerned, what they want is some medium of exchange by means of which they can carry on their transactions. So long as the population within a country finds that it can do so, any medium is readily accepted. We had that experience in India in the case of the two-anna nickel coin when it was introduced during the war and in the case of the one-rupee note when it was introduced, although both these things were done after a great deal of hesitation. So I submit that, if we had in this country gone to inconvertibility in 1914, or '15 or '16, on the ground that every country in the world had been obliged to do the same thing, that we were a gold standard country, that gold could not be had and so there was no other right way to tackle the problem, then most probably the thing would have worked as smoothly as it has done in every other country.

3534. Pausing there, assuming that you are right that this can be done, that a fresh intrinsic value can be given to the rupee or the use of the small notes can be substituted for it, can that not be done equally, whatever the fundamental currency system of the country is, whether it be a sterling exchange standard or a gold exchange standard or a full gold standard?—It can be done in every one of them because I take it that the rupee will be merely a token coin, so under any of these three systems you would be bound to have some kinds of token coins and it does not matter at all what the intrinsic value of the token is.

3535. It may be said, indeed we have had it in evidence, that a second prominent defect in the pre-war system was that the rupee was in reality linked to sterling only and that the system ceased to be a gold exchange standard since sterling depreciated. To begin with, I rather gather from the general tenor of your memorandum that you do not lay very much emphasis on the difference between a link to sterling or a link to gold?—If you will permit me to point out, I don't at all agree that we were linked to sterling. Because, although sterling happened to be the same as gold in pre-war days, every piece of legislation, unfortunately we had very few in India in regard to currency, but the three or four definite acts of legislation have never had any link with sterling. For instance, in the very early days when we began the linking, we did not say that the pound sterling and the five pound Bank of England note was to be freely circulated in India. We said that it was a sovereign and a half sovereign, that is gold coins, that would be circulated. Then in the Coinage Acts, we provided that it was a sovereign that was to circulate as the equal of Rs. 15. Then, in the Paper Currency Act, we did not say that the Controller of Currency was to give so many rupees for so many pounds sterling tendered. It was definitely laid down that the local currency was to be issued against so many grains of gold. Now, if we are to go by definite Acts of the Legislature, then I beg to submit that the connection was never with sterling, but was always with gold.

3536. They were, as you describe, the legal provisions, but as a matter of fact was not the system before the war actually operated as a sterling exchange system?—I think the situation was this. In pre-war days it was possible for Banks to tender gold and get out currency and it was in fact done. That is why we had some 40 crores of rupees in gold in the Bombay mints when the war broke out—I do not mean in the mints, I mean the paper currency reserve. Gold was tendered and currency was taken out. At the same time I agree that sterling was accepted and currency given out and that is where I take it it was an abuse of the system, not a practice of what the system should be, because if I may make myself clear, the Secretary of State had to sell Council Bills in order to lay down money for himself for home charges, and he used that power to go on selling more Councils in order to divert gold which ordinarily would have come under the Acts to India and be converted into currency, and he accepted sterling instead; so I would submit that the pre-war system was the conversion of gold tendered into local currency, and that whenever it was sterling, it was an abuse of the system, not a correct use of the system.

3537. Turning from the question of past practice to what is best for the future, I think it is your view that it would be better that any link there is should be a link with gold and not with sterling?—Exactly.

3538. Can that object not be attained under an exchange standard by such provisions as that an adequate proportion of the reserve should be held in gold, or, indeed, that a proportion of the reserve should be held in the form of currencies or securities held in other gold exchange standard countries than Great Britain?—Well, Sir, I have submitted to the Commission a copy of my memorandum to the Babington-Smith Commission also, and you will no doubt have noticed that I think that such a system could be sound, but unfortunately the last ten years have taught us otherwise not only in India but in every country.

3539. I follow that, but I am really asking questions rather upon the theoretical side?—So my point is that for the future I would not trust such a system at all, and I would rather like to have the system which they have in England where mistakes would not be possible.

3540. You say that it is theoretically sound, but that in practice, for the reasons you have stated, you do not recommend it?—Exactly.

3541. Following out this little analysis of the defects in the pre-war system, we are told, thirdly, that the system did not provide for the automatic stabilization of the rupee because there was no statutory safeguard against the fall in the rate of exchange below the lower gold point. The Government is under no statutory obligation to sell reverse councils. Again, looking at the scientific side of the

question, can you express any opinion as to whether that defect in an exchange standard would be remedied by the imposition of a statutory liability upon the Government, or whoever it is that is in control of this matter, not necessarily to sell reverse councils, but either to sell reverse councils or to provide foreign exchange against local currency in India as a matter of statutory obligation. Would that theoretically remedy this defect in the system? —There are two aspects of the question that you are now putting to me. One is whether a statutory provision would be satisfactory.

3542. I think it would be of great assistance to the Commission if you would divide your answer in this way; first of all if you will tell us the theoretical aspect, and then, in the light of that, tell us what the practical applications will be to actual conditions?—I will try to do that. Your question has two parts—the statutory part in which the Government or the Currency Department, whoever it was, would be under an obligation to give international money against local money, and that is what really a gold standard means because gold is international money, and the Government that are under a gold standard simply undertake to give against local currency notes or cheques or whatever is tendered international money for payments abroad. They give gold. Now under the gold exchange standard they go a little further, and instead of giving gold at their own door and allowing the taker to take it wherever he likes, they go further and help the man who goes for international money by giving him that money at his own destination. That is the second part of your question where you suggest that it may be given in foreign currencies, that is, any banker who wants international money and says he wants it in Paris might be given an order on France, or if he wants it in gold dollars, he might be given an order on America for dollars. That is how I understand the proposition put by you. If that is the case, then it would be far more simple to give the gold and let that banker or applicant or whoever he is to take it to his own destination in his own way because there is another question that occurs to me here: how are Government to get hold of all these international currencies if they are to be provided? In pre-war days the only international currency that the Government was prepared to offer was sterling, and as sterling was practically gold, then the only difference between the gold standard as in England and the standard as in India was that while the Bank of England did not offer to take gold to the destination, in India the Government offered to take gold to the destination for the applicant by giving it in London itself. But if it is to be complicated by the other currencies, then I am afraid abuses are very likely to creep in, because whoever the authority is in charge might think of what currency is cheap at the moment. If French currency is very cheap, he lays in French securities. Next day if American dollars are cheap, he might try to lay in those. I do not think it is a very sound thing for any country to offer to give other countries' credit or currencies instead of gold.

3543. I was not laying emphasis on the form in which international currency would be supplied, but what I wanted first of all to ascertain your opinion about was whether, in your opinion, the acceptance of a legal obligation on the part of the currency authorities to provide either gold for export or foreign exchange as a matter of statutory liability would remedy this defect in the exchange standard system by providing for a stabilization of the rupee that would be automatic, laying stress upon the word "automatic"?—If it is an exchange standard system that we are considering, then I would certainly not have foreign credits or currencies, but if gold is to be paid out, whether from Bombay or from some other central reserve, I do not think that would be unsound, and that would make it automatic.

3544. With the reservation that the international currency is to be supplied in the form of gold for export, you are of opinion that the acceptance of the statutory liability would fortify the exchange standard system by making the stabilization an automatic stabilization?—Exactly, Sir.

3545. Turning to the next point, we are told that it was a defect in the pre-war system that there was no provision for the automatic contraction of the currency. Do you agree with that?—I do not agree with that, Sir. And I will give my reasons if I may be permitted to do so. There has been a feeling, and I know the argument has been frequently put forward, that there was no provision for automatic contraction, but the automatic contraction in the real gold standard countries only comes by means of gold going out when the balance of trade is adverse. The banks in the country do not start out to contract currencies just because they fancy that the currency is redundant, but when gold actually goes out and the basis of the circulation is reduced, then alone is the circulation contracted automatically. Now in India that happens so rarely because on balance she has been a creditor country throughout; it was otherwise with this country only in 1907-08, in 1914 when the war broke out, and later in 1920. In each of those cases what should have been done if the system had been correctly operated was to sell reverse Council Bills as was done, but not under a statutory obligation.

3546. I gather there was nothing in the statutes to impose that liability on the Government?—But reverse bills were sold in 1907, in 1914 and again sold though on very different grounds, and therefore I think on wrong grounds, in 1920. If reverse bills are sold, it really means that our reserves which were held in the form of sterling money come out of the paper currency reserve, and that amount of notes has to be automatically cancelled. So I submit that the contraction of currency automatically was there available in pre-war days under the system if it had been correctly operated.

3547. May I put this point to you. The point is that the currency was not necessarily contracted under such conditions as those to which you have referred, because the Government could arrange, by borrowing from the gold standard reserve, to meet sterling payments on account of reverse councils without affecting the amount of currency in circulation?—Well, Sir, there again, I think that the reading of the pre-war system is wrong.

3548. My question was directed to what actually occurred. Did not that actually occur?—No, it has not actually occurred. In pre-war days the money that should have gone out, the gold that should have gone out, was the gold from the paper currency reserve and not from the gold standard reserve; because as I tried to point out in my memorandum the gold in the gold standard reserve is really against the silver notes in circulation, the rupees. The paper notes that first come in into the paper currency reserve would have the reserve of the paper currency drawn against, and in proportion to the amount that goes out the notes would have to be automatically cancelled. Of course, on some occasions, it has been the paper currency that is drawn on, and on other occasions, I believe in 1907-08, they drew on the gold standard reserve; but the correct thing would have been all the time to first have recourse to the paper currency reserve, and then when that was exhausted, to the gold standard reserve

3549. Do you not agree that, if you had borrowed from the gold standard reserve in order to meet sterling payments, there is no necessary contraction of currency under those conditions?—You refer by sterling payments, payments of the Secretary of State for Home charges; you refer to that and not to the adverse trade balance?

3550. Does it make any difference for what purpose the sterling payments are made?—It makes a very important difference; because we have fortunately the experience of the last five years of England to guide us. I would beg to point out that in the last five years and perhaps longer, England has had to pay every year very large sums to America, and

none of them have gone out from the currency reserve of England. Dollars were bought in the open market, some times at very high prices as compared to the nominal value of the £ sterling. But they have bought in the open market, and I submit, Sir, in the case of India, India stands in the position of a debtor to England for Home charges. England stands in the position of debtor to America for war debt and other payments, and payments in both cases have to be made in a different way than from the reserves. The reserves should not be drawn on, and in England they have not been drawn on. It has been rather the other way. During the last few years, the fund has been constantly added to, and I believe with direct help of Government, from gold that Government had got hold of in different ways, and at the same time Government has not used that gold to pay America.

3551. I think I need not press you on that point, because you do not see really that there was any defect as described in the pre-war system?—Yes, if it had been correctly understood. Unfortunately it was not.

3552. I think we must try and get to the bottom of that. The pre-war system was capable, shall we say, of being operated amiss, so that there would be, as a matter of fact, the sale or letting out of the international currency without any contraction of the internal currency?—There I agree; it was possible to misoperate it.

3553. That was the point I wanted to get at?—Yes, that is its greatest defect.

3554. I want to put the question to you whether that is a remediable defect of a perfected exchange standard system?—I am afraid, no, Sir.

3555. May I suggest to you the outlines of a system which would be still an exchange standard system in order to ascertain your opinion whether it would be a system that would remedy this defect. Supposing that you combined the gold standard reserve and the paper currency reserve into one, so that there is only a single reserve, and that is a reserve both in form and in substance to protect the exchange value not only of the paper notes of the country, but of the silver notes of the country also; so that when rupees are paid in and the gold or sterling reserves of the system are paid out there is a contraction of the reserves which must produce automatic contraction of the internal currency, would not some arrangement of that sort give you an exchange standard system which would provide automatically for the contraction of the internal currency when international currency is let out in a manner which it would be impossible to abuse?—Well, Sir, I do not mean any offence, but—

3556. May we have first of all your opinion on the scientific basis, and, secondly, on its application to practical circumstances?—On the scientific basis, I have already expressed earlier when I said that if the system could be operated correctly, then the gold exchange standard, as I understand it and as I have tried to put it forward before this Commission, would be the same thing as the gold standard, because it would mean that the reserves are kept in one central place instead of being dispersed all over the country and to that extent I may say that the system could be correctly operated; but unfortunately in the last ten years we have seen it in every country that for one reason or other, political or social, as we now see even in France, forces are too strong for the man in charge and there is always a temptation to do something that solves the difficulty of the moment and let to-morrow take care of itself.

3557. How could the system which I have so roughly outlined be misused? What would you fear? Where would you fear the dangers would materialise? —Well, Sir, in the various directions in which mistakes have happened in the past, the same mistakes might be made by some future Finance Member or by some future Secretary of State. It is perfectly possible, and then they would give the same kind of reasons to validate their action. That is the fear that I have in my mind.

3558. The system to which I have referred would be based, would it not, upon the maintenance of a certain proportion of reserves? Would you fear that such mistakes would come to a head in the form of improper alterations from time to time in the proportion of the reserves?—They might come in the shape of the constitution of the reserves, as it happened between 1915 and 1920, when the fiduciary circulation was increased constantly by so-called legislation every few months or every year almost. Of course, it is very difficult to imagine the kind of circumstances that may arise in the future and the action that the future statesmen may take under those circumstances; but what I am afraid of is that the abuse would be there, the chances of abuse, I mean.

3559. Now to anticipate a little, the scheme which you outline yourself would be based as to its soundness and efficient working also upon the maintenance of a proper reserve, would it not?—Well, Sir?

3560. The question I am asking you is whether, under the system which you outline, there is at any rate an opportunity for the abuses which you fear just as much as under the scheme we have just considered in outline?—As humanity is constituted, almost any system can be abused by men who want to mistranslate the regulations according to their own wishes. But if it is the kind of system that I now advocate, and it is practically an imitation of the Bank of England system, except that we are saddled with this huge amount of token money in circulation actually, then the public in a few years' time, would get to know what would happen when gold went out. It would also get to know what the notes or the token money in the country really meant, that they meant so much gold and so on; so that just as in England, the advocacy of a change in the value of the pound found very few supporters and ultimately England went back to its pre-war par, in India also with their knowledge of what the currency really was it would be far more difficult in the future to allow abuses to creep in.

3561. That is a very important and interesting opinion, which, as I understand it, is one of the bases of your proposals. I wonder if you could explain that a little further to the Commission, and in order to make it more clear, may we again take it by way of a comparison and put the question in this way. Why should the public have more understanding, and more confidence based upon the understanding, of the nature and value of their currency unit under the arrangements which you propose than it would have under a perfected exchange standard system after a period during which the gold value of the rupee remained stable?—That is mainly psychological. In every country in the world, including England, the commoner people think that gold is a much more reliable thing to hold than anything else. It was only very recently, after Mr. Churchill's declaration that I found in the English papers that gold coins had been drifting back into the banks from English hoards. I simply point that out because in England the status of education is very, very different from what it is in this country. We are absolutely in darkness here so to say. Now in India, from time immemorial, they have trusted gold; they trust gold to-day, so much so that in spite of gold having been at 35 per tola they bought it; when it went to 18 they still bought; when it came back they still went on buying it. It was the only thing that the people of India thought to be a safe and reliable store. Now in future under the scheme that I advocate, being at least as I understand it an approach to the gold standard on the model of the Bank of England, the people of this country will at least feel that thereafter their currency would be gold or the token money was immediately convertible into gold because I do anticipate granting internal conversion into gold after a few years when we have built up our reserves, that is encashment of notes or rupees into gold for internal purposes, not only for foreign payments. That is what I had in mind in my scheme.

3562. Does that appear in your memorandum?—Yes Sir. I simply say for the first few years we shall be obliged to keep the rupee unlimited legal tender but the day must come when the thing will have to be reconsidered.

3563. You say (page 159 of Volume of Appendices) that, when the gold currency gets firmly established in the minds of the public as the real money of India, the position can be reconsidered. I will ask you presently to amplify that. Then we may perhaps put it in this way, that what you lay emphasis upon is that the confidence of the public would be increased by the knowledge that a full return of whatever sort it may be can be obtained back in the form of value expressed in gold?—Exactly.

3564. Does that summarise what you have told us?—I believe it does.

3565. Just to complete this little analysis of the pre-war system, we have been told by other witnesses that another defect in the pre-war system was that the currency reserves were divorced from the banking reserve and that effective regulation of the money market was therefore impossible. I gather from your memorandum you are also of the opinion that that was a defect, the divorcement of the currency reserves from the banking reserves?—Yes. May I point out that the currency reserves and the banking reserves should not be amalgamated as one.

3566. There is no question of amalgamation?—No linking you mean?

3567. The argument is that, in so far as control is exerciseable over the use of currency reserves and banking reserves, the control should be in one hand and not in two hands?—With that I agree. In fact that is why I advocate the transfer of the Currency Department to the Imperial Bank.

3568. So I understand, but that is of course a question which is independent and not immediately related at any rate to the question we are dealing with. It is an administrative question. Now I want, if I may, to turn to your own memorandum, and to ask you to assist us to understand some of your proposals. It will be most convenient I think if I refer to your summary (Appendices, page 167). I have, I think, covered the first paragraph of your summary in the questions I have already asked you, and I should like now to ask you a few questions on paragraph 2 of your summary. There should be gold currency in circulation for the reasons we have just gone into. I do not quite follow, as regards the working of your proposals, how the gold currency would get into circulation. Could you clear that up for us?—Yes, Sir. I have proposed that while a direct obligation is not undertaken to give gold for every note or rupee presented the currency authorities should hereafter begin giving out gold as long as they find it convenient. In fact that was done in pre-war days under the old system and a good deal of that gold came back.

3569. What paragraph is that in your summary?—If you refer to the second paragraph under the heading "A Gold Standard with a Gold Currency" (Appendices, page 155), you will get the principal reason why I want gold to go into circulation.

3570. That is your object?—Yes, Sir.

3571. Now let us try to follow out how it is going to get there?—By giving it to all applicants so long as it is convenient. But I do not want to make it obligatory in the first stage because that might put on a far bigger liability than we know to-day.

3572. I think perhaps we should make a little mental note to add that to your scheme in the summary?—About its being optional? I have given that under the heading "Encashment," paragraph 8 of my summary.

3573. There is to be an optional authority to the currency authority to encash notes in gold or silver rupees whichever it prefers. If that is merely optional, why should the currency authority choose to give out gold, particularly when, as at present, it has got such an enormous stock of rupees?—My feeling is, Sir, that if we adopt the new system that is advocated by me by which all fresh currency will only come out against tender of gold and nothing else, then in a few years we are bound to have a fairly large stock of gold and the currency authority may then find that they are quite safe in giving out gold as they used to do. They did try it on several occasions in pre-war days when gold was given out without the public insisting on it. The currency authority may find after we have gone on with this new system that they have quite sufficient gold to venture to give out gold.

3574. Assuming that the gold reserves of the currency authority increase readily, it might find itself in a position to have some gold to spare to put into currency. There are two questions in that connection I should like to ask. The first is this. Can you define at all what should be the policy of the currency authority as regards the amount of gold which should be issued for currency? When should they stop?—It would depend on the amount of reserve that they think they should have in order to meet their foreign liabilities if they arose, because apart from the foreign liabilities the only use of gold would be to meet internal liabilities.

3575. Then you would say from step to step, maintaining the reserve at whatever figure is adequate for the protection of the foreign exchange value of internal currency, that whatever was superfluous to that should be allowed to go into circulation?—Yes, I would recommend that, Sir.

3576. In the second place, in view of the experience of past efforts to put gold into circulation, do you think as a matter of fact it would go into circulation?—Well, Sir, the failure in the past was really due to the fact that 25 years ago when those first attempts were made and which failed, the average earnings of the people were extremely poor. Even to-day they are very poor but they have advanced a little bit since those days, when one single unit of 15 rupees frequently meant two months' wages in many rural areas. To-day I believe it means more than 1 month's, perhaps one and a half month's wages. So, that was really the reason why gold came back; but if it comes back it should not be considered that the public do not want gold, because we have other evidence before our eyes that India has been importing huge amounts of gold. What is more, Sir, I would like to point out to you that a great deal of gold is being imported actually in coin form as sovereigns, although sovereigns cost a little bit more than ordinary bullion. That shows that people who want to keep a store of value prefer to keep it in gold to-day, and in future if gold is given out it will most probably, some of it, circulate but only in the larger towns where the disbursements of the individual happen to be much more than Rs. 15, but in rural areas it cannot circulate though it may go into stores.

3577. Of course history and experience leave no doubt that gold is very popular with the people of India for ornaments and for hoards?—Exactly. Now about hoards. I will give my views.

3578. I imagine those would not be uses of gold which you would consider it prudent to encourage?—The point is this. There again gentlemen with European training are unable to appreciate exactly what happens to all this gold. In the Indian social system under Hindu law the woman has no right to any property excepting what is given to her as a gift either at marriage or on other occasions, and she naturally wants to keep hold of that wealth, whatever she has acquired, in a way to be always able to watch over it. That means in the shape of ornaments on her person. But apart from the merely luxury side of it, where ornaments are used as a luxury, in India all these ornaments form a very important store of value for the female section of the community. Then, as I have already mentioned, a good deal of this comes as coined sovereigns for which the people pay even a few annas more. You might wonder why people pay a few annas more when it is all the same gold. The explanation is this. If I

have stored gold in my family, some as ornaments for my wife and some as sovereigns, then I will go to the last extreme before I go into the bazaar and sell any of my ornaments. It will be at once notorious that I have become practically broke, insolvent. On the other hand, taking out sovereigns from my store, as sovereigns are currency, and paying with them for my necessities, would not bring about the same kind of disgrace. This is why gold comes in these two forms into the country; I would like those gentlemen that look at it from the European point of view to understand the Indian position. The part that remains in ornaments is a store of value mainly for the female section of the community and mainly to be drawn upon when the other resources fail; because owing to the laws and customs of most of the Indian communities the female members of the family have a right at least to maintenance; and the remainder which has gone into the country in the shape of coined money, I take it, is merely value stored up for a rainy day some time in the future.

3579. From the very interesting answer which you have just given it is apparent that there is a very long road to travel before the investing habit can be very widely spread, at any rate as regards these particular gold holdings?—If I may be permitted to draw your attention to another leaflet, that I sent to you, on the External Capital Committee's Report, I have there indicated that it is hopeless to think of the investment habit spreading or the banking habit spreading in this country. Can we expect an Englishman to do his banking in German or Russian? Only 8 per cent. of Indian's population is able to read its own languages; I am afraid not even 3 per cent. are able to do it in English; and still our so-called banking is in a language which 95 to 98 per cent. of the people do not understand. Then, when you come to investment, which means holding pieces of paper which are called shares or debentures, how are these poor people who do not know how to read or write, to understand that the paper is a *bona fide* piece of investment and not a fake, and that somebody has not cheated them? It may be a digression but—

3580. It is of great interest, I think?—But I would like to point out that it has been found in America in the United States, where they are trying to give education to cent. per cent. of the community, that the ignorant population consisting of Italians, Rumanians and so on hoard their money; they do not go to banks. If that is the case in a country like America, which is practically 98 per cent. literate, then what could you expect in a country like India where 95 or 98 per cent. of the population is illiterate? So the real solution of this so-called hoarding is not to talk of hoarding and not to preach in big towns to men like me who are trained to trade and industry; but to go and appeal to the masses. How could you appeal to the masses? You cannot go into the seven hundred thousand villages of India and talk to every one; the only way is to preach it through the newspapers. Now the newspapers are hopeless because the people cannot read them. So the real trouble in India is not that the people do not want to invest, but that they cannot do it because they cannot read and write and they cannot trust pieces of paper which they do not know the value of; in the matter of literacy the census returns will tell you that the female section of the country is far more illiterate even than the male section. That will explain to you why the females of the country, even when they get gold in the shape of ornaments or in other ways as gifts and such like, do not like to invest it; they know gold, they can see it, they can feel it, they can hold it for themselves. They do not know whether the piece of paper is a fraud or not, and frauds are committed every day which these people come to hear of.

3581. From your very illuminating answer I draw the conclusion that the only thing which the uninstructed people can understand and the only thing they want is gold?—Exactly.

3582. And you look upon that as an impossible ideal, at any rate in the foreseeable future?— To-day, Sir.

3583. Within the foreseeable future?—No, Sir. I hope the Government of India will be more enlightened and will introduce compulsory education; I do not mean any offence, but I hope compulsory education is coming.

3584. You look upon it as not an immediately practicable ideal that they should be encouraged to the extent of lending their money for productive uses, for investment in banks and so on?—Not to-day, I agree.

3585. In view of the very great popularity of the use of notes in India, as revealed by statistics at any rate, do you think it such an immediately impracticable ideal that the people of the country, after a period of stability, would come to look upon the note as being as safe as gold?—They have done so already. In fact, if I may again be permitted to point out, Mr. Gubbay, who was in the Finance Department for many years, said in his evidence before the Babington Smith Committee that they had been puzzled to know what had happened to the immense amount of notes that had been issued in the last three years, that is between 1916 and 1919, and he added that Sir Dadiba Dalal, who was also one of the members of that Commission and with whom he had been discussing it because he was supposed to know the lives of the people, being one of them, both of them failed to understand what had happened to all these notes. I am simply pointing that out to show that there has been no distrust of notes in the minds of the masses as is made out. The masses have been taking notes very freely.

3586. Do you think people hoard notes at all?—That is what I was trying to make out. Mr. Gubbay's answer would show that notes went out in heavy amounts and did not come back, meaning thereby that they were hoarded until some difficulties made the people think of their hoards and spend them.

3587. In view of the admittedly more economic nature of the note as currency, and in view of this encouraging experience as to the growth in popularity of the note, might it not be said that one ought to set before the country as one's ideal of a currency system the system of a note inconvertible internally, convertible only into a foreign exchange, and that that is an ideal which might be attained practically almost as soon as the other ideal of a gold currency, leading in course of time to the education of the people up to the point of investing their gold hoards?—I agree. The point is this; the moment people in this country begin to feel that they have got simply to walk to the nearest treasury office or currency office to get all the gold they want, most probably it will be found that they will not take the gold because in up-country areas these people are rather secretive, and they would like to conceal their hoards, and it is so much easier to conceal a fifty-rupee or a hundred-rupee note by just sewing it up in a waistcoat or in the lining than to keep a hundred rupees or even five or ten sovereigns as they weigh something and as they create a noise. Of course it has not been tested in this country; it has been tested elsewhere that after the first few years of people being habituated to obtain gold when they want it, most probably it will be found that they will not go for it and that the gold will mainly remain in the currency offices.

3588. The only point which I still do not quite follow in your analysis is, why, if the popularity of the note has apparently been growing, it is necessary to have this rather, if I may call it, violent method of increasing confidence in it by a period of gold currency. Why not leave things to go on as they are, as it were, with a steady increase in the note circulation?—My answer would be this: although the note has been in circulation and has been popular, we have seen enormous amounts of gold going into the country and disappearing, at least as far as the big towns are concerned, where English methods of commercialism obtain; that is because apart from the few rupees that

a man thinks he may want to-day or in a few days all the rest of his store of value he wants to keep in gold, because he thinks he may or may not get gold. Now, if gold is in circulation most probably that distrust will disappear in a few years; the public in India will come to know that a note is absolutely as good as gold and that they have simply got to go and cash it; and then it may be that the stage that you are aiming at may come about.

3589. I am very much obliged to you for your full answer. May I just revert to your practical proposals? We have elucidated this, that there will be an optional payment of gold or silver for notes, and that that is the way in which gold should go into circulation. I do not quite follow how this provision will correlate, in the actual working of your scheme, with the fundamental provisions which are contained in paragraphs 6 and 7 of your summary. Those are, as it were, the bed-rock of your scheme. In paragraph 7 you say: "Gold should be freely issued to all who tender local currency and ask for gold; but it should be issued only for *bona fide* export purposes." That is subject, is it, to the provision in paragraph 8 that gold may be issued optionally in exchange for notes?—I may point out that for export purposes I want to make it obligatory; for internal encashment I want to make it optional; that is the difference.

3590. Proceeding a step further, I rather gathered from one of your previous answers that you contemplate a further period at some more remote epoch when the exchange of gold against internal currency shall no longer be optional but shall be obligatory?—Yes, I think that period will come; it may take ten or fifteen years.

3591. When will it come, in your opinion?—Until we have actually tried this out it is very difficult to say; but I would point out some data that may help us to come to our conclusion.

3592. Let me ask this preliminary question to make it clear to the Commission that the period will, in your opinion, have come as soon, I suppose, as the gold reserves are adequate to permit you safely to undertake that obligation?—I see what you mean. If you speak of obligation being taken on, then merely the reserves having reached a safe level in the opinion of the currency authorities would not be enough.

3593. What more would be required?—We would have at the same time to see that the token currency then outstanding is not a volume which could not be easily controlled.

3594. I do not quite follow that?—I shall try and explain. The token currency is in two forms, the paper and the silver; and although we have very accurate data about the amount of paper in circulation, the data about the amount of silver tokens in circulation are not very reliable. We could have a good guess, but that is the best we can do. Now I give you my reasons why I think we might be in a much better position ten or fifteen years hence. It has been found in pre-war days that there was an absorption of currency of some 20 to 25 crores a year, taking the last five pre-war years, 1909-1913. That has been given in one of the leaflets that was sent to me—the history of the currency system. Now, sir, if the future demands for currency remain at least as great as they were in pre-war years—and they are bound to be much greater—then the absorption should be larger year by year, so that we may find that at at least 15 crores of rupees go out of circulation year by year, if not more.

3595. Go out into circulation?—No, by absorption. The absorption really means as stores of value. People, instead of putting by notes or putting by gold, put by coined rupees, because they are equally good to go out into the markets and buy things with. That 15 crores is not too much when we consider that the population of this country is 30 crores or 35 crores, which means that if half a rupee per head may be laid aside year by year, that may do away with 15 crores of currency. It would go out of the circulation for practical purposes.

3596. What becomes of these 15 crores?—They go into the so-called hoards. Now, my point is, sir, that if, at the end of the next ten years, say in 1935, the situation is re-examined, it might be found that the amount in circulation was very much smaller than what it is assumed to be to-day. To-day it is supposed to be about 250 crores.

3597. In active circulation?—Yes, it is supposed to be in active circulation. The figure is derived from what is called the census of rupees; the method is . . . .

3598. We are acquainted with it?—I am simply pointing that out. It may be that the census taken round about 1935 might show us that the rupees in circulation were not more than, say, 50 crores or 70 crores, a much smaller figure than what exists to-day. Then alone would I take up the obligation.

3599. That would be principally as a result of the substitution of gold for rupees?—I don't think it will be substitution. It will be both. Gold will be absorbed by those who are having gold to-day and rupees will be stored and notes will be stored, whichever currency the man thinks most convenient for him to store up. It will be all. Even notes will be stored. And that was the case even in the five pre-war years, when, as I mentioned, gold was being imported in huge amounts.

3600. If the circulation of the country now requires 250 crores of rupees, as you state, and that is essential, how can it be reduced to so low a figure as 70 or 80 crores in the course of five or ten years?—Well, sir, it will be this way. Absorption has been going on year by year in pre-war years, and it was made up by means of fresh issues of currency, new rupees and the new note issue and so on. Hereafter, with a scheme such as I have advocated, there will also be fresh issues of currency against the gold tendered and if rupees are absorbed there is likely to be fresh currency going into circulation and making up for them. It may happen, sir, that in ten years' time we may find that the rupees have been materially reduced.

3601. We are looking forward to a period when it will become an obligation to give gold against rupees and notes, and you say the active circulation would be decreased?—I don't mean that, sir. Do you mean "of rupees"?

3602. Is that a material circumstance? The material circumstance is not the active circulation, but the amount of rupees actually outstanding, because, if you have the obligation to pay gold out against rupees, that is an obligation against any rupees that may be outstanding, whatever purpose they may be put to.—I entirely agree. My point is that by that time the people will have become fairly familiar with the new system and with the gold currency, and the majority of those who hold these rupees —because it is the poorest classes who hold the smaller units, the richer classes will hold something else—they perhaps would not know very much about it, and once the store of value is put in the old stocking, it will remain there until it is taken out for spending.

3603. You think you may get off lightly, and that not many rupees will be tendered for exchange?—That is why I do not suggest any period in the memorandum.

3604. In the first place, I understand that at this point, when you give gold against rupees, you are also going to limit the legal tender of the rupee, when you make it obligatory?—Yes, then we should have to limit.

3605. Is that not going to have a very strong effect indeed in bringing rupees back for changing into gold? What about the people with hoards?—I hope the Commission will bear very clearly in mind that hoards means a very different thing here from what it does in Europe or America.

3606. Let us drop the word and put it this way. When you limit the legal tender of the rupee, will that not be the strongest possible reason why all those who hold rupees as a store of value should restore them for exchange into gold?—What will happen,

sir, is this. The largest holders of these stores of value are supposed to be the many small States, feudatory and otherwise, in this country who hold very large amounts. But even there, Sir Antony MacDonnell, who gave evidence before the Herschell Committee—and he was a very able official of those days, he had gone right to the top as Lieutenant-Governor of the North-West Provinces—he was of opinion that the States did not hold such enormous amounts in hoards as had been commonly imagined. Then, he also thought that the various zemindars, who are something like the squires in England, large gentlemen landholders, they were supposed to hold very large amounts, but he and some other witnesses also were of opinion that that also would not be very correct, except in a few exceptional cases. So, what will happen in the next ten years, if I see the situation aright, is this. These big landholders are wide awake. They know what they are about. They will, some of them, be very carefully studying the report of this Commission to find out what is going to happen in the next ten or fifteen years, they have got very able officers to advise them, and they will go on quietly converting by first exchanging rupees into notes and then holding the notes, so that some day they may claim gold against them, whenever the gold payment was made obligatory. You would not be demonetising the notes, you would only be demonetising the rupees. Then the only holders we would have to consider would be the small men, and my suggestion is whenever we may have to consider the quantity of legal tender, we will have to put it a good deal higher that what it is in England. In England it is 40 shillings. I don't see why it should not be 400 or 500 in India. Because it does not really matter. A man who has a claim for Rs. 500 against another is not the man who has to send out that money to a foreign country. He goes to his banker and does it through him. So, as far as the internal payment is concerned, if the local limit of payment is fairly high, the bulk of these holdings, which I believe are with very small people and in small amounts, will not be disturbed. They won't go out.

3607. One has, of course, in considering what is prudent, to consider what may happen at the worst?—I agree, sir.

3608. Might it not be said that it is equally possible that as soon as the policy was announced by the Indian Government of ultimately limiting the legal tender of the rupee, immediately all the holders of silver hoards would take fright and throw their hoards on the market?—You mean on the Indian Government expressing that opinion to-day or ten years hence?

3609. I suppose one must contemplate that, if the Indian Government adopts a policy of finally paying gold for rupees and limiting the legal tender of the rupee, it cannot keep it dark. It must announce its policy?—That is why in my scheme I do not say when the rupee should be made limited legal tender and I have gone further.

3610. My point is this. Supposing the policy is announced by the Indian Government that ultimately, five or ten years hence, the rupee is to be limited as legal tender, might not that, in your opinion, lead to an immediate rush on the part of holders of hoards to anticipate that limited legal tender by getting rid of their rupees?—But they would only get notes under the proposal I put forward.

3611. They can only get notes from the Government, but, on the other hand, they could sell their silver on private account?—But the silver, if it is sold on private account, may not get them 9 or 10 annas. I am sure large holders would not do that.

3612. Now let us contemplate the arithmetical quantities with which we are dealing. Your scheme is that the shock of the dethronement of the rupee should be absorbed during the period during which gold is optionally given out. Nevertheless, it should be possible to form an estimate of the amount of gold which would be required from first to last for the whole period. Have you attempted to make such an estimate as to the amount of gold which India would require from the world at large for the period which you allow to carry out the policy which you suggest, supplementing that policy with what you have told us now about the proposal for the final expense of the obligation to pay gold against rupees and notes?—Well, sir, I have not done it. But if you wish it, I will give you some off-hand indication of what I think possible.

3613. I think that would be of great interest?—If you will permit me, with the proviso that I have not carefully worked it out—I don't think it very possible to come to any valuable conclusions about that amount to-day, because we don't know what may happen ten years hence. The total circulation may be a very big figure, and then the two or three hundred crores which are to-day supposed to be somewhere in circulation would not be 50 per cent. of the total, but perhaps 25 per cent. or 20 per cent. I hope I am clear there.

3614. No, I am not quite clear. Have we not to take as the basis of this calculation the total amount of rupees outstanding which are likely to be returned?—If you will allow me to complete my argument, possibly it will answer what you have in your mind. My argument is this. To-day the total circulation is 200 crores in paper money, and 200 crores in silver money, call it 400 crores. So that silver money is 50 per cent. of the total. It may happen that 10 or 15 years hence the proportion of silver money may be much smaller. It may not be 25, it may be 20 per cent.

3615. You mean, in exchange for notes?—No, not having been exchanged for notes. The total circulation having increased. It is bound to increase in this country year by year to a certain extent, the total circulation of money. The currency figures here will show you that this increase must occur and the currency figures in other countries will show the same thing, including England. Then we may find that these 200 crores of rupees that now form a very large portion of the total circulation would form then a smaller portion. That would be one thing. And then it may also be found that these India's shillings are so necessary for the small payments in the country that people do not come back and there is no chance of their being exchanged for gold. So I think it is rather unnecessary at this stage to go into any figures, but I would personally, if I had to do it, say that if we had been able to build up a reserve of something like 60 or 70 per cent. of the paper money issued, that is, of the 180 or 190 crores that are to-day in existence, then undertaking the obligation will not put us into any greater risk because a good deal of the money will not come back at all.

3616. 60 or 70 per cent. of, say, the 200 crores of note circulation?—Yes.

3617. That is 120 or 140?—Yes, but that is not to be built up to-day, but to be gradually built up.

3618. And that reserve has got to bear, as it were, the burden first of all of maintaining the internal convertibility of the note; secondly, of maintaining the exchange value of the external currency; and, thirdly, the varying burden of the final exchange of gold for rupees presented?—I agree. The only proviso I would add is that the measure of each of these burdens is very difficult to decide to-day.

3619. Of course, it is a comparatively easy matter to calculate what reserve it is prudent to keep to maintain the internal convertibility of the note. Experience teaches what percentage is wise for that purpose?—I am afraid the percentages do not refer, as I understand them, to the internal convertibility, but to the convertibility in foreign payments. The reserves in all the gold standard countries are supposed to be for both, but it has been found by experience that the man who holds a piece of paper or note does not change it into metal coin merely

for a whim, while the man who has to make payments to somebody outside the country has no option but to do it, because outside the country nobody will take that piece of paper. So I would say regarding the percentage of the reserve that you hold, if it is sufficiently large, then this risk of rupees being tendered and being immediately converted into gold may not be considered very serious, but that will only happen if we have a large reserve.

3620. Might it not be suggested that there was something, perhaps, of an element of speculation in relying upon such a small demand for gold as that for which you allow, and that it would be impossible, on the grounds of prudence, not to take into consideration the fact that the demand might be the maximum demand which could be made, and that, in a matter of such vital moment to the commercial and industrial welfare of the country, one ought not to run any risk?—If that is to be considered a very serious risk, then one of the solutions would be to imitate France or Holland and let the present rupees remain unlimited legal tender, so that there would never be any question of their coming in for conversion; a holder would not go in for conversion if he felt that the rupee was going to keep its value for all time.

3621. Before we examine that suggestion, let me put to you one or two figures without asking you to accept them. Will you tell me what would be the various effects to which I will refer if these figures were in fact justified? Let me put this figure to you. Supposing that the total amount required to carry out the scheme which you have outlined, the ultimate acceptance of the obligation to repay rupees in gold, were from first to last an additional roundabout 100 million sterling of gold, to be drawn to India from the rest of the world; granting that figure for the moment in order to examine the various possibilities, are you prepared to express any opinion as to what effect the withdrawal of that amount of gold from the other gold-using countries of the world would have upon general gold prices, and, through general gold prices, what effect it would have upon the welfare of the Indian nation?—Well, sir, there again, if you will permit me to divide the question into several parts, first of all, if we had to draw a hundred million pounds of gold from the world's stock, then we would have to consider the consequences, and some of them would be certainly very serious.

3622. What would the consequences be in your opinion?—Then I will answer it that way. If you are going to draw away 100 million pounds from the world's stock of gold, of course that means monetary gold.

3623. It is gold metal that we are talking of?—Well, gold metal will only come out of the mines gradually; so if you want to have, say, 100 million pounds all at once, you can only do it by drawing on the world's monetary stock. Then, sir, that would mean that the foundations of the credit, industry and finance in every gold standard country would be weakened because some of the bricks in the foundations would be drawn away and the superstructure may be too heavy for what remains and that might lead to very serious consequences, because if the gold standard is correctly operated, then the only consequence would be a serious contraction of the credit in every country which has given us some of this gold to make up that 100 million. That would undoubtedly lead to a very serious crisis both in banking and trade.

3624. What would be the effect on prices?—The answer I have given about trade would give the answer about prices, because there would not be a serious crisis in trade unless commodity prices collapsed and merchants made heavy losses and could not meet their engagements. Now, sir, there is an aspect of this question which I would like to draw your attention to, that the probabilities are for a continuous decline in prices in the next 10 or 15 years. That is not merely a fancy; it is what has happened after big wars. I know that the commonly-held opinion is that it is merely the increased money that raises prices, but if we could go into the facts it would be found that it was every war that raised prices, that it was every period of peace that depressed them; and the bigger the war, the bigger the depression and the longer the continuance, and that is mainly because—I hope I am not digressing because I am trying to answer the question about prices—the reason being that during wars Governments spend lavishly, we might almost say thoughtlessly, the only thought they have being to win the war, and it does not matter what they pay for it, and such a big buyer with an unlimited purse coming on the market puts up the prices of every commodity.

3625. You are telling us that, although the withdrawal of this great quantity of gold for Indian purposes might have one effect, yet there may be world influences which are tending towards another effect?—I was only drawing attention to the fact that when prices fall and we are in a period of long trade depression, we might be told that it was India's drawing away gold to the extent of 100 million; everybody might say that it was the effect of that; but that would be taking absolutely a wrong view of economic history. We had the same series of a decline in prices after 1873. It went on right up to 1890, and then we had the gold and silver commissions and so on. Such a period we are in front of, and we are going to face. So, if the withdrawal of a large amount of gold all at one time is at all contemplated, then my suggestion, sir, is that this is a wrong moment for it. We would be very seriously accentuating the gradual decline in price levels which is before us for the next 10 or 15 years, until an increase of the population, and an increase of the needs of the masses of the population, adjust the demand again to the supply. To-day it is not adjusted. So if I had to do it, I would certainly not think of trying to draw anything like 100 millions from the world's monetary stocks to-day. What I would do is to allow India to draw what currency gold it can in the ordinary course of trade year by year, and that would not be felt, because the mines of the world would be bringing out new gold and some of it would come to India, and it would not disturb the foundations of credit as it exists to-day.

3626. Let us now look at the other side of the picture. Ultimately, on the adoption of the measures which you recommend, as I understand it, silver would not be required in the reserves of the Currency Department?—No, sir. In my scheme I have left the silver rupee as part of the reserves, but no fresh silver will be required. If your question is, "no fresh silver will be required," then I agree.

3627. We have introduced really a further step into your calculations, that is the stage when the obligation is accepted to give gold against rupees. If we look forward to this stage, will there be any necessity to keep any silver in the reserves?—No.

3628. Ultimately, then, on the fulfilment of your proposal, there will have to be a disposal of the silver in the reserves. What, in your opinion, would be the effect upon the silver market of the world, first of all if we assume that whatever silver is held as stores of value in India is turned out and becomes no longer required for that purpose; and, in the second place, if the silver which is now held in the currency reserves of India is no longer required for the purpose? What will the general effect upon the silver market of the world be of the increase in the supply of silver?—There again we are trying to guess the position ten, fifteen years hence and silver is not a thing that can be grown like wheat. It is a thing that comes out of the mines and fifteen years hence we might find that some of these mines had less production than they have to-day. Then if that silver that India will be holding in the shape of ornaments or rupees which have been demonetised were to come upon the market, it may not have the

same adverse effects which it has to-day, when the supplies of silver are ample. I personally feel that part which is held as ornaments will not come on the market at all, except for a very, very small fraction; because so long as there was some other kind of money in store, a rupee note or sovereign, people would use that money rather than go and sell ornaments, and there has been this curious feature about India, that apart from currency experience, in the last fifty years, possibly with one exception, India has been an importer of silver for purposes of ornaments and so on. Every year India has gone on importing silver. Possibly with a fresh growth of wealth it might be that these wants in the matter of silver also might grow larger and so if we have to consider the problem of silver coming on the market 10, 15 or 20 years hence, it may not be as serious as it will be to-day. And I personally do not see why even when you demonetise the rupee you should not go on holding the bullion for a considerable time until we come to a favourable opportunity. The American Government got its opportunity in 1920 and we might get our opportunity, say, in 1940 or at some other time. Our cost of silver is mainly 32 to 35 pence, if I am not wrong, as far as the currency silver is concerned, excepting the amount we bought at one dollar.

3629. Finally, with regard to the amount which will be required on this future date for the substitution of rupees in currency, is not the sale of the silver in the currency one of the principal means by which that gold would be paid for?—I would not advocate that. If I may be permitted to explain that again, that will have its effect on world prices. To-day we have a big country like China still on a silver basis and trying to throw silver on the market means depressing silver prices, which means upsetting the economic system of China, and considering the size of the country and the requirements of the country, it might be that any such state of affairs would seriously upset the economic position of the world and it would be much wiser for India to suffer a very small loss which the holding of that silver would put on it rather than a far bigger loss which a general upsetting of trade all over the world would involve.

3630. Let us see what the practical steps are that you recommend for increasing the gold reserve in order to meet these future obligations. I understand that they are described in your memorandum, where you say that the practical step which you recommend for the realisation of the further gold reserve is that local currency should in future be issued only against gold. That is, you rely upon the import of gold in good years?—Exactly, on trade balances.

3631. Its tender to the Government and the issue of notes cent. per cent. against gold. I understand that this is the only form of future increase in the local currency?—Exactly.

3632. I am not quite sure that I follow what you mean. Would not that result in a steady increase in the percentage of gold in the reserve?—It is bound to, Sir. It will be like this. Supposing we have a hundred crores of currency and say 40 crores of gold, that is, a percentage of 40. Assume that to be the position to-day. Next year, there is an addition of 10 crores of currency against 10 crores of gold, say. Then it will be 50 against 110 and you could see it is a larger percentage than 40 and that way the percentage is bound to continually improve until we come to a very adverse trade balance which comes only perhaps once in ten years, when we might find that that steady increase has stopped or there has been a fall.

3633. What effect would that have upon the elasticity of the currency, or would it be inelastic?—How inelastic, Sir?

3634. The increase in the percentage of gold?—There is no question of elasticity there. Any one who wants further currency would be able to get it by bringing gold. Commodities would be exchanged for gold by bankers and the bankers would exchange it into local currency.

3635. Why do you assume that the gold would be tendered under these conditions to the Government? Is it not apt to come in in the form of purchases on private account for ornaments, etc.?—I would point to what has happened every year including the current year. There is always a need by bankers, apart from such gold and silver as they can import and sell in the bazaar for ornamental purposes, for currency and thus they are obliged to go to the Government to get currency, because Government is the only party that can issue such currency. Even within the last month I believe they were obliged to tender 3 or 4 million pounds and in the last few months they have tendered many millions and some of them Government has put in the reserves and issued currency. But what Government has received is sterling. What I would do would be to tell the bankers, 'we do not want sterling credits; we want gold', and they will be obliged to get it. It would not come from England, I may add that.

3636. That is the only step you would take to accumulate gold, and, as I understand it, your policy would be to await the effect of these measures in regard to the accumulation of gold before you proceeded. The first step would be during the optional period?—The first step would be the giving of gold against notes. That, I may state, could be done even from to-morrow, that is, from the time that this thing came to be adopted; because so long as there is no panic or war, very few people will care to go for gold and the bank can spare a few millions.

3637. As I understand it, the cost of your proposal will be only the difference between the loss of interest as a result of adding to your reserves and investing less in securities?—I do not agree with that word 'cost.' When I tender one sovereign to the currency office and take away one piece of paper, that sovereign belongs to me and the Government has not worked for it or earned it and it has no business to invest and earn interest on it. If it does, it is trying to make money out of currency. There is no cost to the Government at all. I do not agree there.

3638. That seems to me to raise not so much the question as to whether it is an expense or not as to whether it is a legitimate expense or not. If you act wrongly, as you say, and invest your gold, you would get interest on it, and if you do not invest it you will not get any interest upon it?—But the difference will be not whether it is a legitimate cost; but whether the Government was taking a legitimate profit or not; I would put it that way.

3639. To complete the picture, let me put one or two more questions. You are in favour of the transfer, in the manner in which you describe, of the control of the note issue to the Imperial Bank of India and you are in favour of the minting of an Indian gold coin. Your reasons are fully stated in the memorandum. If there is anything else you wish to add to them you may do so now?—There is a considerable body of opinion that would welcome a ten-rupee coin, although I say that I do not think a ten rupee coin necessary. If Government find that the body of opinion is more in favour of a ten or twenty rupee coin rather than a fifteen rupee coin, I have absolutely no objection to that.

3640. You see nothing unsound in it?—No.

3641. But it would not occur to you that it is necessary?—No.

3642. Then I see that you are in favour of the issue of small notes of the denomination of less than Rs. 5? You say, 'special facilities for the encashment of the One-Rupee Note into small change should be created.' What exactly are you referring to when you mention these special facilities for encashment?—I think a good deal of what is supposed to be the unwillingness of the masses to accept notes is really due to the fact that they lose

some money when they have to cash them into small coin. In the rural areas even a five rupee note is too big. Even to change the one rupee note, the village moneylender charges some money. What I advocate is that this small change shonld be freely made available in some organised way in many centres of the country, particularly in leading bazaars and hâts; by hâts, I mean what we call fairs in England on market days. And then every holder of the note should get whatever change he requires without having to pay any discount for it. There is in this connection a matter which I would draw attention to. I understand that the railways of the country are acting as a drain for small change from the interior to the big towns. The system is that every station master has to put all the money that he gets into a bag, seal it and send it to the audit office. This means that every day a good deal of small money is drained away from the various stations all along the line, to Bombay or Calcutta. I point this out to show how these notes are made unpopular with the masses. They feel that they have to pay a farthing or whatever it is if they are to be cashed. Even such small notes are of great value in this poor country and I would advocate that these matters should be looked into and the drainage of small change should be stopped by arrangements for the payment by the station masters to some local shroff or banker, and every decent town has either of these, and the currency office also should make further arrangement to make getting of small change easy and free of cost.

3643. Taking another of your proposals in paragraph 12 of your recommendations, what emphasis do you lay upon the recommendation that the gold standard reserve and the paper currency reserve should be kept separate, assuming transfer of the control of the note issue to the Imperial Bank?—Well, Sir, I first of all think that if we have transferred a part of the gold standard reserve in the way I have suggested in my scheme......

3644. You have taken 10 millions?—Yes, Sir. And then the rupee securities would be 20 crores; the total issue to be covered by gold or gold securities or silver coin excepting for those 20 crores which are to be considered a minimum holding of Government of India paper. Now if the reserves have got to be amalgamated, then there would be no objection in principle provided it is very well understood that the gold standard reserve was really the reserve at the back of the silver note, not at the back of the paper note.

3645. Provided, that is, you make some allowance for an increase of the liabilities against which the combined reserve is being held in respect of the necessity for covering the exchange value of the silver notes?—Exactly, Sir. Now my suggestion is that if it is at all going to be done it may be done as follows. In my scheme I suggest that 90 crores of silver coin may remain in the reserves. Some part of it may be taken out and treated as part of the gold standard reserve, and the sterling securities that we now hold in the gold standard reserve should be amalgamated with the other sterling securities in the paper currency reserve. There will then be rupees only in the gold standard reserve and it may be simply called a reserve of rupees. I have provided for silver rupees to continue in the paper currency reserve because in my scheme I propose encashment to be optional in gold or silver rupees, and if you have that optional encashment for internal purposes, then you must have some rupees in the reserve, otherwise how are you going to do it?

3646. In paragraph 16 you say the Imperial Bank should not be allowed to do any foreign exchange business. In your opinion can a Central Bank discharge its essential functions as regards the note issue without any dealings in foreign exchange?—I think it can, Sir, unless you or any other gentleman can tell me that the Bank of England has to do it. I know the Continental banks do differently but I think it is a thing which is very likely to lead to abuses as in fact it has done in France to-day; one so easily slips from holding of foreign exchange securities, etc., to further and graver errors.

3647. In paragraph 18 what is your reason for limiting the provision for remittance to the actual requirements of the year? Why, for instance, should not the Imperial Bank, to which you recommend the remittance business should be transferred, take advantage of a favourable situation to save the Government money by making provision ahead for its requirements?—Well, Sir, that has been done and on the same ground, although of course it was done by Government in pre-war days. It was argued that a good rate of exchange was being obtained, and so we remitted more, and enormous balances were built up in England. I think that unnecessarily large balances have been held by the Secretary of State in England, and I do not think it is the right thing to do.

3648. I understand that that is involved, in your opinion, in the general policy regarding balances?—By remitting more than his requirements it increases the balances held by the Secretary of State.

3649. You say in the past the balances have been swollen to an exaggerated extent to the detriment, in your opinion, of the financial situation here?—Yes, if I may be permitted to elaborate that.

3650. I am just finishing the point I wanted to ascertain. It is really, is it not, a question of degree? You are not, as it were, wedded to this proposal as regards the limit of the year as long as any relaxation of that limit does not allow the amount held to be accumulated to a provision too far ahead?—Well, Sir, that is what I was trying to make clear. The Secretary of State is not a party on whom demands for payment are sprung unawares. All his payments are known some days, months and even years in advance, because there are interest payments on given dates, pension payments on given dates, etc. Even his merchandise transactions such as the purchase of railway and other stores are not things for which payment is sprung on him. He has ample time to prepare for it. So if he had a balance of a million or two in hand I think that should be ample. In fact, I would not even think that necessary. The English Government has arrangements, what are known as Ways and Means advances, with the Bank of England, and I do not see why the Secretary of State could not have the same kind of arrangement either with the Bank of England or some other Banking agency by which if a sudden demand springs up, which I say cannot possibly occur under the system on which he is working, he could draw half a million or a million pounds. Even apart from that, Sir, he could put out six months or year bills as he used to do before 1910. I do not know if bills have been put out in the market after that. He could get money on very cheap rates. Taking very large amounts of money to England and holding them in hand simply because some day you might require them is I do not think a sound method of financing.

3651. (*Chairman.*) I will postpone for the present, if I may, the questions which I wish to ask about the ratio of stabilisation. I will ask my colleagues if they have any supplementary questions to ask on this part of the subject.

3652. (*Sir Reginald Mant.*) Mr. Madon, I understand from what you said in reply to the Chairman that you would not attempt for some years to introduce a gold currency in this country?—That is, not the obligatory circulation.

3653. Owing to the disturbance that would be caused in both the gold and silver markets if we tried to acquire at once a large amount of gold and to dispose of a large amount of silver?—Yes, Sir.

3654. You anticipate that if we wait for some years the situation will be eased in both those respects?—Not in the second respect, that is, selling of the silver. The question of selling silver may not ease in 5 or 10 years; we might have to wait longer. In

the matter of the stock of gold I think in 10 years we shall be in a happier position.

3655. I was not taking 10 years; but if we wait long enough both difficulties will be eased?—Yes, Sir.

3656. The surplus silver will to some extent be absorbed?—Yes, Sir, that is my view.

3657. And the country will have acquired a considerable stock of gold?—Will you permit me just to expound this part of the silver question. The production of silver does not depend curiously as it happens on the demand for silver itself. It really depends on the demand for lead, zinc, and copper. That is, if these three metals with which silver is found in very small proportions, are selling at very good prices, then mines are worked for these metals of which silver is only a bye-product, and more silver is to be had in the market. What I want to emphasise is that during the War, and since the War, lead and spelter have been at much higher levels than in pre-war days, so the mining has been pretty active. It might be that on a decline in the prices of some of these metals some of the mines would have to curtail their operations or even shut down; and it is these mixed mines that are to-day the largest sources for the supply of silver. That is possibly one way in which we might find 10 or 15 years hence that the supply had been curtailed and the additional supply that India might then put on the market could be easily absorbed without any disturbance.

3658. Also you anticipate, do you not, that India's surplus stock will have been considerably reduced by that time?—Stock of what? You mean of silver rupees by absorption?

3659. Yes. There is a continual absorption going on not only by hoarding but by the increasing need for rupee currency?—Yes, Sir, in both ways.

3660. So that the surplus stock which India now holds will have been considerably reduced?—Yes, Sir. I would put it that way.

3661. I just wanted to ask you one or two questions which seem to indicate a few dangers to achieving that object. You said I think that if we announced a policy of demonetising the rupee in future, that is, restricting the legal tender of the rupee, some far-seeing holders of rupees would change them for notes?—They may.

3662. That would cause some embarrassment for the time being in increasing the Government stocks of rupees, would it not?—Yes, but that would not be an embarrassment. I do not see why Government should be embarrassed because it has to keep charge of so many rupees.

3663. Let me put it this way: it would decrease the absorption and increase the period before which you could introduce your gold currency?—Yes, I see your point. If the rupees come back then there will be less remaining out of which absorption can go on. I believe that is your point. If that is so, on the face of it it is correct. I have got to agree to that.

3664. And now when you undertake the obligation to provide gold for notes, would not those notes be an additional obligation? Would they be likely to be presented?—Entirely, every one of them.

3665. That would operate to delay the period. It is not an insuperable obstacle, but it is there. It may delay the period?—I personally think we cannot form any accurate opinion until we have had some experitnce of the new system.

3666. And you gave us an interesting account of the demand for gold in the shape of ornaments for women. You told us that notes are now being used largely as a store of value, for being hoarded. I presume there is no chance of notes being substituted for those ornaments?—Not for ornaments, Sir.

3667. Not for use as ornaments but as a store of value? Because I understand the ornaments become the property of the woman?—Yes.

3668. While the notes will not be so?—No, unless they are a sort of gift, as when a father gives fifty or hundred rupees in notes to his daughter as a gift, but the general practice is at present at least to give it in gold, except perhaps in big cities. On that point Sir Purshotamdas knows naturally far more than I do, and he will be able to enlighten the Commission more accurately. But what I have found from my own investigations is this, that except in big cities where not only men but women and children have learnt nowadays to understand what shares and securities are, and where such gifts of paper either as currency notes or investment paper are fairly common, if you take the bulk of the population all over the country, I do not think that it is at all common; the gifts are mainly of ornaments.

3669. If they take the shape of notes, they would still remain the property of the woman?—Yes.

3670. You said it was part of your scheme that you would make it obligatory in the first instance to give gold for export only?—Yes.

3671. While Government would retain the option of giving gold for internal purposes?—Yes.

3672. How would you secure that that gold was exported after being given out by Government?—I have said that it should be given for export, and the best indication would be that exchange would be at the lower gold point.

3673. (*Chairman.*) In paragraph 7 of the summary the witness says "and at the gold export point only"?—And in the body of the paper where I talk of giving gold for foreign payments I point out why at the gold export point, namely, that when we are at the lower gold point it means that the country does owe payment abroad, and then the gold if it is drawn would be most likely to go abroad. Then also the authorities would know or at least could form a fairly accurate judgment of where the gold was going from the party who applies for it; and in normal times, that is barring any panic, the bulk of the applications will come from banks.

3674. (*Sir Reginald Mant.*) You do not think that there would be any serious risk of the gold going into internal circulation and not being exported?—If it goes it would simply mean that the export was not needed. But as we are not to-day going to put an embargo on the import of gold or silver bullion, any demand from the interior for gold as gold can be freely supplied by the ordinary importing channels. So I personally think there will not be much danger of somebody surreptitiously cashing notes and taking the gold away into the interior when he pretended he wanted it for export.

3675. You do not think it is likely to be a drain on the Government gold reserve?—Because here will be no embargo on the import of gold.

3676. Turning to another point, you have said that you anticipate a considerable fall in gold prices for many years to come, and you said that that always happened after a war; and you instanced the course of prices in 1873; that was after the Franco-Prussian war?—Yes.

3677. Is there not another factor that has a very considerable effect in those long changes of price levels, namely, the supply of gold, and was not that one of the main factors in the course of prices after 1873, was the fall not due largely to the demonetisation of silver on the Continent and a greater demand for gold?—Well, Sir, I know that argument has been constantly put forward; but if you do not look only at that period but go over the history of the last 150 years, say from the French Revolution, you find something altogether different. If I may be permitted to show you a chart of prices, it will make my meaning clear. (*The witness here handed a chart* to the Chairman.*)

3678. (*Chairman.*) This is a chart of commodity prices between 1782 and 1923?—This chart brings out two curious facts, both of which undoubtedly seem to have considerable influence on the level of prices. One is that at the very start of every war there is a sudden depression; then while the war is progressing prices go soaring up; and when peace comes the prices come down and this occurs again and again. You can see that very clearly after the French Revolution period; you can see that on a very small scale in the Crimean War; you can again see it in the United

* Not printed.

States War of Liberation; you can see it in the Franco-German War; and in more recent periods you can see it on a very small scale in the China-Japanese War and so on and then in this war; but there is again a small period between that and the Balkan War. It began in the Italo-Turkish War of 1911 and went on in 1912-13; you find a depression from 1910 to 1911 and then a rise till about the end of 1912 when there was talk of the Balkans signing peace and in 1913 when peace was actually signed there was a depression. That is one thing which seems to appear as an important factor from this chart. Then there is another very curious thing which I am quite unable to explain; but there seems to be some kind of periodicity in crops, because ultimately all new value on which new credits can be built up is produced by crops or output of the mines. You will find there in that chart that curiously the year which has '7' as its last figure is a panic year. You will find that in 1817 and 1827; the 1837 panic was well-known; there was a small panic in 1847; so in 1857; in 1867 there was a violent panic; in 1877 there was a small panic and it was attributed to various causes including the purchasing power of India having been disturbed by famine. 1887 is the one year where I cannot see any panic; then we had 1897 and 1907 and so on; I do not want to say these are mathematical things or that we should be superstitious and that 1927 and 1937 are going to be panic years; but these two things I draw attention to in order that too much emphasis may not be placed on what is called the Quantity Theory of money,* where the fundamental idea is that the moment you put more gold into the market, prices go up and the moment there is less gold prices come down. I do not think that is correct.

3679. (*Sir Reginald Mant.*) But you are not rejecting——?—I entirely reject it.

3680. (*Chairman.*) But you have not heard what you are rejecting?—I will tell you this, if you will allow me to explain. Sir Reginald Mant wanted me to admit the position that a decline of prices was not due to the effects of the war and the long period of peace but to decrease in supplies of gold. That is why I brought this out.

3681. (*Sir Reginald Mant.*) I asked you whether the supply of gold was not also an important factor in the course of prices?—I would not say important, Sir; because without a supply of gold, prices have soared up and with supplies of gold they have gone down. In the last four years in America, from 1920 to 1925, the supply of gold is larger, the supply of credits is larger, the supply of bank deposits is larger and everything is larger; but prices are 50 to 70 per cent. lower.

3682. Has not America taken steps to sterilise that gold to some extent?—I do not see that; that is another thing that the exponents of the Quantity Theory put forward in order to show that they are not wrong; actual sterilising would be to bury the gold and not use it anywhere. What America did was different; they put that gold into circulation; they issued what were called gold certificates, and those gold certificates acted exactly like any other money as the basis of credit, with this one difference that if they had been kept by the Federal Reserve Board then there would have been 80 per cent. gold against 100 per cent. note-issue while as it was it was 100 per cent. against 100 per cent. But that was a very minor factor; still allowing for all that, if you pay any regard to the total amount of money and equivalents of money in circulation to-day in America and in 1920 you cannot explain it in any possible way on the basis of the Quantity Theory of money. I do not want to go much deeper into it because it may take up the time of the Commission.

3683. There is only one other point that I wanted to ask you about, and that was about Government remittances. I understand from what you said to the Chairman that your main object in limiting the Government remittances to the year's requirements was to prevent the accumulation of large balances in London?—Which would be lying idle.

3684. Am I right in thinking that you would not prevent the Secretary of State from anticipating his requirements for the next year to a reasonable degree??—I believe I tried to explain in reply to a question by the Chairman. I tried to point out that the Secretary of State's payments were all such as could be foreseen weeks or months ahead and therefore he could always put himself in funds in good time to meet all those payments. If he felt that there might be difficulty, he might have a million or two in hand. I would prefer him to have a working arrangement for ways and means credits with the Bank of England, and then there would be absolutely no need to have very large amounts in hand. If you say a million or two I have no objection.

3685. But if a merchant knows ahead that he has to make certain payments abroad and knows that by taking advantage of a favourable rate of exchange he could put himself in a position to meet those demands more cheaply, would it not be the natural and reasonable thing for him to do?—May I point out the difference. The difference is this; that the merchant simply makes an exchange contract; he does not remit money long in advance. If I have bought anything and I think I ought to cover my exchange for meeting it when the shipment is going to be made, I go to the bank but I do not remit the money actually. What I want the Secretary of State in one of my recommendations is to do the same thing; I say that the Government should also contract for forward deliveries of exchange. That is just the answer to your point. If Government think that a particular rate of exchange is favourable then they may contract, by all means. But not remit money out of India.

3686. Can you refer me to that?—It is in paragraphs 17-20 of my summary.

3687. You would allow the Secretary of State to contract forward?—I would allow him to contract forward but not to remit forward. I have, in the body of the paper on which this recommendation is based, explained further that, if this forward settling is adopted, then most probably the Secretary of State would be getting favourable rates for council bills in May, June, July and August. In the case of the bulk of foreign trade in India the goods bodily, physically, go out in January, February, March. But the sales are made in May, June, July, August, September, perhaps and then some part actually in the season—because merchants have to anticipate, and particularly in foreign countries they want to be sure of their goods at the right prices. So if the Secretary of State adopts the policy of contracting his exchange forward, and say in May he says: I am going to buy at the rate of 2/16 but I will also be prepared to contract for January forward at 3/16, it might be found —personally I am sure it will be found—that there are takers for it. He will find a profitable rate and he will not have to lock up money for it.

3688. (*Sir Henry Strakosch.*) Mr. Madon, you will agree that, especially in view of what you have told us regarding the ill-effects of a drain of gold from gold standard countries on the stock of gold moneys and the ill-effects of a material fall of the silver price, it is essential to appreciate the effect of introducing into India a gold currency such as you suggest. We have to weigh, I take it, you will agree, what the total amount of gold may be that will need to be introduced into the country?—By what time, Sir?

3689. I will come to that in a minute. The total amount of gold. Then, a very important matter we have to consider is the cost to the country?—I don't agree that there will be any cost, Sir. I tried to make that clear in my reply to the Chairman.

3690. You don't appreciate the point?—If you will tell me where exactly the difference is, I might be able to explain, Sir.

3691. You propose, having regard to the ill-effects of a great quantity of silver coming upon the market, to retain the silver for a long period. Now, on introducing gold currency into this country, what do you

* *See also* Appendix 18.

imagine would happen? How do you think the gold will go into circulation? I suppose in exchange for either rupee coin or notes?—Possibly, Sir.

3692. Very well. If it has the effect of bringing out rupee coin in exchange for gold, the amount of gold necessary for that purpose will have to be provided by other means than the sale of silver?—Exactly, that is what I propose; not by the sale of silver.

3693. Now then, if that were to take place, how do you propose that the Government of India should finance the introduction of a gold currency?—Well, Sir, I am afraid I don't exactly understand but I will try to answer the question as I understand it, because I don't see where the financing comes in at all. Under my scheme every new unit of currency issued will be against a unit of gold paid into the reserves and therefore for every further issue the gold will be automatically there. For the issue as it exists to-day—and some part of it may want encashment—I have purposely suggested that the obligation to convert the local currency into gold—that is exchanging notes for gold—should not be undertaken for a period until we are able to see the situation more clearly.

3694. Do I understand you rightly, that you would introduce gold currency into the country only to the extent that the savings of the country would enable gold to be tendered which would then go into circulation?—It would not be savings. It would be the balance of trade of the country which has got to be brought in. It may not be all savings which the balance of trade brings in—it may belong part to you, part to me, and both of us may want to spend it after it has been brought in. Both of us will be bringing it in cash, that is in gold.

3695. In other words, you want to utilise the surplus of the balance of payments to be brought in and put into circulation?—May I point out that 'utilise' would not be the correct word. That will be the only form in which it can be brought in, because, after we have brought all the goods that we want, all the services that we want, our balance that remains due to us has got to be brought in in cash. It will not be a utilising of the balance we have, but the only way in which we could settle it.

3696. I appreciate that, but, as you are no doubt aware, India is absorbing every year a very substantial quantity of gold, and, on the supposition that the habit will be continued to import gold on private account to be put away in hoards and not to be tendered, how would you put gold into circulation?—Well, Sir, that does not require any guessing. We have the facts of the pre-war periods and even the facts of to-day before us, that every year a certain amount of gold and silver are imported as bullion and taken into the interior, and a certain amount has to be imported and converted into currency. It was what happened in pre-war days. It is what will happen hereafter.

3697. But would you agree that in these few years after the war, by far the major portion has gone into hoards, for what reason we will not now inquire?—Well, Sir, you have put a proviso which makes it difficult for me to reply. The only reason was that the Government of India would not permit it to be converted into currency.

3698. But let us go back to the pre-war period. How much of the gold which has been imported for private account would you say has been tendered in exchange for currency?—Well, Sir, in pre-war days silver was supposed to be divided into private account and Government account. And gold also, when Government took it over from some point outside India, it was supposed to be on Government account when it came in. But it was merely a convenience, there was nothing in the Act to prevent the banker keeping the gold all the time until he brought it into the currency chest. What happened was that the Government said: We give you rupees immediately to-day. Tell us that the gold is ours and bring it to us. The banker from that moment had the rupees, which enabled him to make that currency immediately available for his purposes before the gold could be brought in here, which might mean 10, 20, 30 days perhaps more. So, all the gold that went into the Currency Office and was converted into currency at any rate was gold imported on private account, because it came in as payment for the balance of trade. It was not paid for out of the revenues of the Government of India.

3699. What I want to know is this—how much of the gold has actually been tendered for conversion into currency before the war?—A great deal. Mr. Aiyar can give you that. If I may make it clearer. If when you say gold you mean gold bullion then it will appear a small amount. If by gold for conversion into currency, you include both gold and sterling money, then you will find it is very large. The Currency Office can very well give you the figures. You have simply got to see against what the currency was issued, and to what amount. And the new currency was represented rupee for rupee by either sterling money or gold.

3700. By gold being tendered to the Currency Office?—To the Secretary of State who was supposed to act for the Currency Department.

3701. How long do you think it would take to give to the country an adequate amount of gold currency by your process?—I think that on an average we might count on at least 10 crores of fresh currency. I think it is much more but there the Currency Department again will be able to give you the correct figures. But if you look at the figures of fresh currency issued year by year, that is the measure, and if you add up the average for ten years, that will give you the total. I should say it will be something more than 100 crores by the end of the tenth year.

3702. A hundred crores the total?—Of further gold, Sir—not what we hold to-day.

3703. Didn't you tell us before that the economic development of India calls for an expansion of the currency each year by 15 crores?—Then it will be 15 crores. I do not want to give any figures without having looked at the papers.

3704. But merely to illustrate the thing?—Yes, Sir, if it is to illustrate, then I take it that about 15 crores of fresh currency would be required but that does not mean that I would issue a piece of currency against nothing. Every piece would be against gold, or every new piece of currency, whether it is a note or whether it is gold, that goes into circulation can only do so by that amount of gold being imported, and that should give you the total.

3705. What I want to know is this. You said that by the process which you have just described you expect within ten years to accumulate 100 crores of gold. But you told us before that the need for currency expansion you estimate at 15 crores. So, if I may continue and take merely 10 crores as the natural expansion per annum, then by that process you would merely have made good the natural requirements of expansion of the country. You would not have endowed the country with sufficient gold to replace the present stock?—Well, Sir, I am afraid I don't clearly understand you. If 100 crores of fresh currency is issued, 100 crores of fresh gold must go into the reserve, and if there are 50 crores now there would be 150 crores in the bank then.

3706. I don't think we are on the same subject. I want to know how much gold you would actually put into circulation?—Well, into circulation would entirely depend on the judgment of the currency authorities for the time being and I think you would not require to put more than 30 or 40 crores, for the period.

3707. You say 30 or 40 crores would be sufficient to give the country the circulating media that it requires?—Because the notes would remain there, the other media would continue to remain there. It is only the metallic currency that I am referring to.

3708. But we have to contemplate the time when the rupee coin will be *de facto* demonetised except so

far as it is required for small change?—But at least the bulk of it would be exchanged by the holders for notes so that they may not lose their rupees.

3709. But why do you suggest notes? Why is it not possible that the holder of the rupee coin would not be content to hold notes but would prefer to hold gold, a circumstance which has obviously to be taken into account?—Well, Sir, I tried to make that clear in one of my replies to the Chairman, that the bulk of the holders of the rupees would be the masses, the small men, and they would be fairly content to continue to hold their rupees because they would be in driblets—Rs. 10, or 15 or perhaps 50—excepting a few rich princes and zemindars, landholders and so on. In the transition period that I am aiming at, the bigger holders will have taken all the necessary precautions to convert their rupees into notes, because they would have no right to convert them into gold and then the Currency Department would more accurately be able to gauge its liabilities, because these big hoards having come in, the smaller could be safely accounted for and we would find that not much of that would be likely to come in; it would be required for small payments.

3710. May I say this? We have had an estimate before us that we may expect 150 crores of rupees to come in in exchange for gold if gold were in circulation, leaving a matter of 200 crores as circulating media——?—You mean 200 crores of metal rupees?

3711. 200 crores of metal rupees as circulating media; then that would be basing on an estimate of a total of 350 crores——?—That is a much bigger figure than I have been able to lay my hands on, but assuming it is, then the 150 crores that would come back, if they come back, during the transition period, can only claim to be exchanged into notes; they cannot claim gold as of right because I want to make that optional in the first 10 or 15 years of the transition period; or if they came, they would not put any strain on the resources of gold because if we do not want to pay them or if we do not find enough gold to do it with, we won't.

3712. But eventually when you do reach the stage where you will introduce a real gold standard, then you anticipate that 150 crores—if that figure is correct—will be tendered and gold will be demanded?—I do not think so. If I may be permitted to make myself clear, if Government make the encashment of notes into gold obligatory say in 1935, then the holder of the notes would not be under any anxiety to hurry up to the Currency Office and exchange it. He does not exchange into gold for fun; he would simply exchange it to-morrow if you make it at all doubtful that you are going to pay or not pay the next year. If Government simply said, "we shall give gold; we do not know how long we are going to do it but we might" then everybody including myself will rush to the Currency Office and exchange all his notes for gold, fearing that perhaps six months hence they would withdraw that ordinance. But if Government were to say, "we are going to do this, that is the law of the land, that all notes would be convertible into gold," I believe there will be no such rush. Of course when we have built up our reserves to a sufficient figure, then I do not think holders would convert; rather they would hold the notes because they would be a much more convenient form of holding.

3713. Then one point that I cannot quite appreciate is this; you say that you would withdraw the rupee circulation and lock it up pending an opportunity for sale, and at the same time you would see the country investing its surplus funds arising from its exportable surplus to endow the country with a gold currency. Both these stores of metal would be withdrawn from the reproductive wealth of the country. Why is it then that you say that there is no expense to the country? You have withdrawn and are holding locked up pending sale 200 crores of silver and you have in the meantime endowed the country with a gold currency amounting to an equal amount of money, whereas we have today 200 crores of the wealth of the country in an unproductive form, that of metal rupees, and you will, by the time you have introduced your gold currency, have not 200 crores of unproductive investment, but 400 crores of unproductive investment. How do you reconcile that with the statement that it won't cost the country anything?—First of all, I am unable to see how it is unproductive. I will put it this way. If the rupees, the metal rupees or the gold coins are held in the reserve,——

3714. May I interject? It is not a question of reserve; I am speaking of the actual coin circulating?—All right, Sir. If it is actual coin circulating, then that amount of currency is necessary for the transactions of trade, and I do not call it unproductive; it performs a very valuable function, why call it "unproductive"?

3715. Let us for the moment admit that what is needed for the circulating media of the country is productive, how do you reconcile your statement with the fact that instead of having 200 crores of circulating media, you have 400 crores of circulating media; 200 crores actually doing the work of exchange, and 200 crores locked up in your currency chests pending the sale of the silver?—When the silver rupees are demonetised, you are bound to give something in exchange for them. If Government wants to say that from to-morrow rupees are demonetised, the general public will doubtless be allowed a short period in which to change the rupee that it holds for some other form of currency, so that the 200 crores of metal rupees exchange for 200 rupees of paper or something; so the circulation will remain as it is.

3716. I am very sorry I cannot follow that, because you told us before that you do not intend that rupee coin should be tendered in exchange for gold. These were your premises. You said you would provide gold by the balance of the foreign trade of the country and the rupee coin that would come in would be locked away pending sale. When it comes, what happens? When rupees come in from the country into the currency chests, what happens?—They are exchanged for notes; they cannot come in otherwise.

3717. But at that rate you will be doubling your circulation?—No, Sir, because they would come back.

3718. What would happen to them?—They would be held in the reserves, whether you call them the paper currency reserve or some other reserve.

3719. But obviously the reserves are there as the basis for your currency?—What would happen is this. I will take a practical instance. We have today say 200 crores of total issue and a certain amount of gold securities. Well, to-morrow Government decides after giving reasonable notice, say for three or six months, that the rupee thereafter will be limited legal tender, or they might even go further and decide that there will be no rupees, that the coin will be demonetised, what would happen is that if I held 300 rupees in metal in view of that eventually that six months hence my rupees may be depreciated in value and that I can exchange them to-day for notes which I have a right to do any day I will exchange my 300 rupees for notes and hold those notes instead of those rupees so that the rupees will come out of circulation and the notes will go into circulation, the total circulation will be the same.

3720. I cannot quite see how it won't increase. You say that, from the proceeds of the country's foreign trade, you are going to stock the country with money to the tune, merely as an illustration, of 200 crores. You will be withdrawing 200 crores of rupee coin and you say. . . . ?—I am afraid we are at cross purposes. The 200 crores of new gold or new money will be coming for goods or services sent out and not in payment of rupees already in the country. That has nothing to do with the stocks of metal rupees.

3721. I will try to make myself clear. My first question was: By what process would you endow the country with a gold currency? I put it to you then,

that, as I imagined, you would withdraw your rupee circulation and you would hand out gold in exchange for it. You told me that that was not your idea?—I have explained it, I think, in my memorandum; I would not make it compulsory.

3722. Let us leave out the little niceties as to when you are going to do it. The end effect would be that you would put gold into circulation and you would be getting back, as I imagine, rupee coin, which rupee coin you would put into a chest and wait for its sale because you could not throw it upon the market. Thereupon I asked you, how you are going to finance the transaction?—If I held 500 rupees and if I went to the currency office and ask for gold, those rupees will go in and the gold will come out. Those silver notes that have gone against the gold would be cancelled as any other paper notes. Now you can cancel paper notes in the ordinary way by striking them. The silver notes would have to be cancelled by putting them into an entirely separate reserve, so that they would not any longer figure?

3723. Into a store?—Yes. Then to that extent the circulation is not changed because instead of metal rupees circulating, it would be metal sovereigns or whatever it is; the metal gold coins would be circulating and the rupees that have come in would be of the nature of notes and would be cancelled and simply they have got to be kept in a store. The cancelling of these rupee notes will not entail any financing, I do not see.

3724. I see you liken it to the cancelling of notes. The ordinary paper note has no intrinsic value; the silver note has an intrinsic value. If you replace these silver notes by gold?—Replace in what way? Everything depends on the method.

3725. Exactly, I am now taking your own point which you have just explained, that you would be handing out gold in exchange for silver notes, and by that process you would avoid an increase of the circulation?—Exactly.

3726. Now how would you pay for the gold which you are putting into circulation?—Yes, I see your point now. The gold with which we pay for the rupees would be the gold that would then be in the reserves against both kinds of note, the paper note and the silver note.

3727. It would come out of the reserve?—Naturally.

3728. Now then let us look at the reserve. While you are doing that your reserve will go down. To that extent you will have to contract your note circulation?—I agree.

3729. And unless you acquire further reserves, the point may be reached where you have no circulation at all because all your reserve will have been drained away in putting gold into circulation?—Exactly. There would then be gold in circulation. The circulation will remain the same.

3730. What I want to get at is, how are you going to provide the money to reinstate the reserve?—There will be no necessity, if there is no circulation.

3731. Then you want to replace the whole of the 189 crores?—I don't say I want to.

3732. But that would be the effect, would it not? —No, because you are assuming all the time that apart from the notes coming back for encashment into metal, there would be a further artificial exchange of the metal rupees for gold. If it is that, then I agree that there would be that additional gold to be got from somewhere. But that is not what I am saying and I never proposed that. What I say is that the rupees would remain in circulation and the bulk of them, I believe, will continue in circulation if the suggestion as I put forward is accepted, if they are allowed to remain unlimited legal tender for a long time. We can come to a point when we see that the amount in circulation is moderate and that we can take the further risk, *viz.*, to take on the obligation to convert all notes, for any purpose internal and external. Then I agree that the rupee note would come in and the gold in the reserve would go out; but the gold in the reserve is already there as a backing for both.

3733. But then you say that a point may be reached where the reserve is wholly drained and where this reserve is actually in circulation in the country?—Exactly.

3734. The country needs circulating media, again merely to illustrate, the present note issue is 189 crores and let us say, 200 crores silver, or in other words, if the whole country requires to carry on trade with 389 crores, if you withdraw from the note reserve, if you withdraw the whole of your reserve which secures your notes, you must find some other circulating medium to give you the same amount of currency in the country?—I do not understand that. I will try to put it on paper. I am afraid we are not in the same position. As I said, if I have followed you correctly, we would have, say, 200 crores of metal rupees. Then you would have 189 crores of paper notes. Is that the position?

3735. Yes; total circulation of 389?—Then we began by assuming that all the 189 crores of notes have been tendered and gold taken away? Do you mean that Sir?

3736. First of all I wanted to ask you what percentage of gold is there available to cover those notes, taking all the reserves together?—I have shown that we have 80·3 crores according to my calculation.

3737. The reserve therefore is 80·3 of gold?—Then if you add the gold standard reserve which according to my scheme will still hold 30 million pounds, that would make another 45 crores. I put it at 1s. 4d. for calculation purposes. That would give 125 crores. Now you would have 125 crores of gold and 389 crores of total note issue. That would be the position.

3738. That is to say, you would be able from the reserve to put into circulation 125 crores of gold?—Of gold, yes.

3739. Now then, the total circulation in the country to-day is 389 crores and we must suppose that the country will continue to require it. Then you would have to replace the balance by something new, won't you?—Then let us go further. We agree that we have got these 125 crores. Now you have got somebody bringing in notes and taking off gold up to the extent of 125, *i.e.*, the full extent. That is what you presume. Then we would have 125 gone and there would remain 264 crores which mainly consist of notes or silver rupees.

3740. But notes cannot exist when you take away . . . . ?—I am assuming that old gold stocks are exhausted. As we had only 125 crores of gold stocks, they go and those surplus notes, if there are any, would remain and the metal notes would remain. That is your point?

3741. No; no. Obviously you could not keep any notes when you have depleted every penny of your reserve. The balance between 189 and 125 would have to be cancelled?—I do not agree. If that was the position, then every gold standard system in the world would have to go bankrupt; because every one of them holds even a smaller proportion of gold than you are assuming here.

3742. But you would not have a penny of gold. Let me give you the figures. These 64 crores of rupees would not have an ounce of gold or of gold backing?—I agree. To take English figures, £400 millions of notes and £150 millions of gold, there are. If 150 millions were drained away, what would become of the remainder? Do you mean that will have to be cancelled?

3743. Would you really be prepared to leave the 64 crores of rupee notes in circulation with no backing whatever?—There will be some other backing which we forget. We will still have 94 crores of silver coin, which is more than England and other countries have.

3744. But do you think that is a proper cover in a gold standard country for your notes—silver rupees which avowedly you cannot sell?—I was trying to answer your other question that if your gold has been exhausted, all the remaining notes should be cancelled. I am afraid I cannot agree to it. If

that were the position then that position would come very soon in other gold standard countries.

3745. Unless you cancel them, you will have to provide further gold cover?—If the gold cover has gone, as it did go in some continental countries, the notes would remain in circulation, because something would have to be there and they would depreciate. But they would never be cancelled.

3746. It is not a very desirable thing to have?—I agree; but you began by assuming the other extreme, that 125 crores will all be exchanged and will go out.

3747. I only want to know what will be the cost to the country; how much gold will be needed and what will be the cost to the country. You told us that it won't cost the country anything and I am trying to show that it will?—My point is the rupee or every one of them, the metal rupees, whether it is worth 8 as. or something else, they are not paper. So whenever rupees have got to be converted, they would have some value; but apart from that. . . .

3748. But you cannot sell them?—Can't you sell silver? But you contemplate not selling silver because it would have an adverse effect. What I want to point out is that these silver notes need not be made obligatorily changeable for gold until we find that our position was sufficiently strong. To-day you are assuming that these rupees are to remain at these figures 15 years hence, that all the notes are going to be put in and gold taken away, then that the rupees will be taken in, and so on. I am afraid that we are taking rather an exaggerated view of things.

3749. I should like to continue the questions that I put this morning. You will remember we have taken a case, partly hypothetical, of the country having a note circulation of 189 crore and then 200 crore of rupee coin, and we came to the conclusion that if the reserves are used to put gold into circulation there would be no gold backing left when there will still be in circulation 64 crores of notes?—Yes.

3750. Now if these 64 crore notes were to be backed by gold or gold securities to the same extent as the 189 crore were backed, which you regard as desirable, there would be needed 42.5 crore, according to my calculation, of gold or gold securities, which would have to be acquired for that backing. What I submit is that those 42.5 crore would have to be provided from somewhere, and if that is so I should like to know who is to provide them and by what means are they to be provided?—Well, sir, there are several assumptions with which I am not in agreement. First of all, we have, as I tried to point out in the morning, 125 crore of gold or gold securities against a total circulation of 389 crores. The figures are the same as we took this morning. Then it shows that we begin by at least more than a 30 per cent. backing of gold. Then there is this to be remembered, that in that 389 crores you have 200 crores of rupees which—or a good many of which—have to do the same service in this country as shillings do in England. Shillings do not come to the Bank of England to be exchanged because the holders are afraid of keeping them. They are wanted as small change. Therefore the assumption that any large part of these 200 crores, or whatever remains at the end of the period, will have to be converted into gold and that gold will have to be found is one which I cannot accept. Then there is the third assumption that once the total reserves of gold are gone, the remaining notes will have to be cancelled, which is saying too much; in normal times the reserve will be absorbed in that way only if the balance of trade goes against the country; if all the reserves are gone, as you assume, then your third assumption is that the remaining notes will have to be cancelled. With that also I am not prepared to agree, because I do not think that is considered fundamental or even a rule of practice by any gold standard country about which I know. The notes will not be cancelled; they will have to remain in circulation, and the utmost that can happen is that if this extreme case does occur the remaining notes will continue uncovered, it may be, until the balance of trade of the country gets righted. But I am personally of opinion that this is rather an extreme case which need not be considered. I would not assume that shillings could go entirely out of English circulation, and in the same way that rupees could go entirely out of Indian circulation.

3751. Remember, the original question was what would be the cost of introducing gold currency in this country. May I take it that you do not agree with my contention that the introduction of a gold currency in this country will mean some cost?—If you will kindly define what you mean by "some" then possibly we might be able to see how far we agree. If "some" means 100 millions, as I believe was put by you—(*Sir Henry Strakosch*: Not by me.)——the total amount of gold required; some figure was put by you or one of these gentlemen; a big figure, then I would not agree that such a sum would be required. If the sum is much smaller, then I would first like to know why at all that cost has to be incurred. Under my scheme that cost would not come in, because if you at all feel hesitant about the amount of gold you can command in order to convert the rupees, you need not convert them. They remain in circulation, just as guilders in Holland, francs in France, dollars in America. That is not at all necessary to the gold standard which I am aiming at.

3752. You would say therefore that no cost is involved, even though you would have to lock up your 200 crores of silver coin until such time as you are able to sell?—As I pointed out, that 200 crores will be replacing other currencies as they come in; it will not be cost, it will be merely a deposit of which the counterparts will be circulating in the country as currency.

3753. It would not be a cost?—That is my opinion; yes.

3754. Now we will turn to another subject. If, on the other hand, as I personally believe, the introduction of a gold currency were to involve the country in expenditure pending the realisation of the silver held, it would be necessary to provide funds, and I take it the simplest way would be by way of loan?—As I do not see why any loan has got to be taken in order to provide any gold, I am unable to give any views on that.

3755. If you lock away 200 crores you do not see why any funds will be needed to provide gold?—If you lock them up, you will only be locking them up by giving something in exchange, it may be paper notes, it may be gold, one way or the other, and if the rupees remain locked up there is nothing for which the Government has to borrow money in order to provide finance.

3756. You talked about the commodity value of gold?—Yes, sir.

3757. And you combated the idea that the quantity of gold held for currency purposes has any influence on the prices of commodities?—Not in the way that the quantity theorists make out. If you say 1, 2, 3, or 5 per cent., I will perhaps be able to agree. If you say 95 per cent., I say "No."

3758. I have said nothing about the percentage?—Well, sir, I simply give an idea of what our difference will be. If you say the quantum of gold will be a very important factor, as Sir Reginald Mant put it, then I say "No." If you say it will have some influence, then I say "It is one of many factors that affect prices."

3759. Do you regard the rise in commodity prices from 1895 to 1914, a steady rise, entirely unconnected with the increase of the stock of gold money in the world?—I would attach very little importance to it. I would attach far greater importance to the wars which intervened. The chart will bear me out, because it will show a rise in prices just about that period. The first was the war—a petty one—between China and Japan, but it did have some influence because it immediately raised the price

of silver, it immediately raised the purchasing power of China, and in that way commodities the world over were affected; but that was a very minor affair. Then came the South African War, in which the Transvaal was ultimately acquired by the Empire. There we had a large number of men engaged on both sides and as England was one of the parties the amount of money poured out in the purchase of many commodities was far greater and you had a bigger factor at play there.

3760. You suggest that prices fell immediately after the South African War?—They did, sir.

3761. To any appreciable extent?—Fairly appreciable. The question has not been put to me and I have not been able to work up the figures, but possibly that chart might help us again.

3762. May I submit to you a chart which has been worked out for this specific purpose of examining to what extent the addition to the stock of gold money in the world has influenced commodity prices. I submit to you a chart prepared by a renowned statistician in England to check a theory advanced by Professor Cassel, whom you no doubt know, which shows that there is a very close co-relation between the increase and decrease of the stock of gold money and the general level of commodity prices. I submit that to you if you will have a look at it presently at your leisure?—I shall be glad to do that; and if you want any remarks on that point, I would just draw your attention to the fact that the normal increment from the world's mines to the supply of gold is a very small percentage of the total supply held by the world, because it is not eaten up and digested.

3763. (*Chairman.*) Before we go on with this matter perhaps we should know what we learn from this chart?—If you at all wish to cross-examine me on that you will permit me to study it. I do not want to say offhand things which I may have to revise afterwards.

3764. (*Chairman.*) Sir Henry, this is a chart showing the relation between prices of commodities and the stock of gold money in the world between the year 1850 and the present time. If you will tell us what conclusion you base on that we shall understand where the argument is proceeding.

3765. (*Sir Henry Strakosch.*) The conclusion is this, that as the stock of gold money increases the commodity prices rise; as the stock of gold money decreases commodity prices fall?—May I point out, sir, another thing; the same chart would show something else. The position may be put the other way about, that when the prices of commodities rise the amount of money in circulation has got to be increased, so that the circulation of the total supplies of money increased *pari passu* with the level of prices. It may be put the other way. If you will permit me after studying the chart I shall go into that in more detail; at present I am simply giving you the general position, and I would like to draw your attention to another very simple analogy. Take the stock of wagons and locomotives held by railways. If you study that kind of chart for the last 30 years, say, of one railway, the G.I.P., you will find that they have increased in accordance with the number of passengers, that when waggons and locomotives have increased the number of passengers has also increased. If anybody argues that the passengers increased because the wagons were there, it would be a false argument. The passengers were there. They wanted more medium of transport, and so the wagons and locomotives had to be increased. In the same way in the traffic of values the passengers are commodities and commodities valued at particular prices; if these increase then the vehicles for those values, namely, money, would have to increase *pari passu,* otherwise the thing could not be done. So I do not attach much importance to the first assumption, that it is because the first is there the second is there.

3766. May I continue? You told us that India requires an annual increase of its circulating media of about 15 crores; that is, I take it to keep pace with its own economic development?—Exactly.

3767. If that is true of India, it will be true of other countries of the world?—Quite so.

3768. You will probably remember that Professor Cassell has worked out that in order to keep pace with the economic development of the world there should be an annual increase of gold money of 3 per cent.?—He speaks of 3 per cent. for the world and 4 per cent. for America.

3769. You told us that your plan would have no influence upon the purchasing power of gold, because you would be spreading the requirements of India over a longish period, ten years?—Yes; it might have some little influence; I would not say important influence; if you say no important influence then I would be in agreement, because I want to make it clear that every little thing in this world has some influence on prices in various ways which are not easily fathomable.

3770. If India, instead of taking its requirements in one big lump, does take it gradually, would that not also be felt in the gold market of the world or rather the purchasing power of gold if the premises are correct that the world needs a 3 per cent. addition to its stock annually?—The working out of those percentages would, if they had to be analysed, take a very long time; but apart from that, the 3 per cent. which is called the foundation of credit may prove to be too big if ten years hence improvements in matters of credit instruments enabled us to work with a smaller foundation; as we have seen by experience in the last thirty years smaller and smaller supplies of gold have enabled us to build up a very big edifice of credit. So we should not merely take the 3 per cent. and say " Well, the supply of gold to-day is 4,000 million pounds; we must have 3 per cent. or 120 million pounds of gold to-morrow for the next year or credit will break down." Most probably it will be found that the thing would adjust itself if there was not that amount of gold available. Business and finance would have suited themselves by other means so that the credit edifice would remain there although on a smaller foundation of gold. England has done so in the last hundred years; since 1840, when the note issue was based absolutely on gold, they gradually developed the cheque, and now everybody admits that the cheque currency is the most important currency in England and in the more civilised countries of the world. So we should not, I think, take it as an axiom that it should be 3 or 4 per cent. If you simply take it as an axiom that the development of the world or of the various countries of the world individually will require larger and larger amounts to finance them and then if you further postulate that under a gold standard that might mean a larger amount of gold as the foundation, then with that general proposition I would be in agreement; but if you say it should be 100 millions, or 50 millions or 200 millions, then I would say we really do not know what developments are going to be.

3771. May I interject? I was not arguing that point at all?—No? I simply say then that I was answering your question about 3 or 4 per cent.

3772. I do not lay any particular stress on that?—If you will kindly explain to me what exactly you want I shall give you an answer.

3773. I must say I am very glad you mentioned this because I was coming to the very point you have just made, namely, that devices will be found to remedy any deficiency that may exist and in that connection I wanted to ask you whether you have followed the proceedings at the Genoa Conference?—I cannot say I have studied them; but I have in a way as part of my general reading of these questions read what transpired there.

3774. And, if you have done so, you will have generally appreciated that the main purpose of the financial resolutions passed by the Genoa Conference was to do exactly what you have just mentioned,

viz., to provide for the future a system which will enable the world to carry on without material curtailment of its credit structure, no doubt because of the fear that the stock of gold money may not rise in the same proportion as the economic development of the world?—Quite so.

3775. Very well then. What did the Genoa resolutions advocate in order to carry into effect that idea?—If I remember aright, because I have not looked at it recently, the main proposition was that the reserves of the world should be as far as possible kept in one or two or three centres. It would be ideal if you could have one centre for the world, but if that was not possible, let it be two or three; and then every country in the world would be working its credit edifice on the foundation of those reserves. I would first like to know if I am right in saying that that was the principal recommendation.

3776. That is a part of it. The fundamental proposal made and agreed to was a plan by which countries would adopt a gold exchange standard and that certain centres in the world should be selected as gold centres which would liquidate by the shipment of gold the balance of payments?—That is exactly what I meant.*

3777. Therefore they were out to economise the use of gold because there was the fear that the credit structure might not be supported by an adequate base of gold. Then in addition to that of course, they recommended a co-ordination of credit policy so as to keep the purchasing power of gold as stable as possible?—That again will lead us, I am afraid, into argument because the purchasing power of gold theory requires very close analysis.

3778. The Conference was an international confence. A great many authorities of the first order came together and passed that resolution. We cannot, therefore, ignore. . . . ?—No, I do not want to ignore. . . . . their warning and we must, I take it, carefully study their recommendations when we study the currency system of any country, including India?—I agree.

3779. And therefore it becomes so very important to know and perhaps you may give us the benefit of your consideration on the subject, what amount of gold will be needed to equip India with a gold standard such as you envisage?—I have tried to do it in the morning in reply to one of your questions that if we adopt the scheme that I have put forward forward from to-morrow then in the next ten years we shall have got together in the reserve 100 crores of gold if not more. I take that to be the minimum; and if your question means that India has got to get gold in some way in order to develop, then I may be found to be in disagreement because I do not believe in India going and getting 50 crores or a 100 crores or any amount of gold whatever and then starting development with it. What will happen is that India will have to work hard and get the gold in return for the goods and services that India provides to the world. If she does not do that, if she has no surplus goods or services she will not get the gold; if she does, she will get the gold. India will get all the gold that she not only requires but that she deserves by her work. If India does not deserve it, then even if India requires it she cannot get it; why should anybody give it when there is no need.

3780. I refer to paragraph 7 of your conclusions in which you say "gold should be freely issued to all who tender local currency and ask for gold, but it should be issued only for *bona fide* export purposes." Then in the subsequent paragraph you say "Encashment of notes for internal purposes to be in gold, or silver rupees, or both at the option of the Issuing authority." I wanted to ask you what you think the psychological effect of these two conditions will be. Would it not lead to the public, knowing that at a given stage notes will not be absolutely exchangable for gold putting aside or hoarding the first issue of gold money which is put into circulation?—My answer to that would be that in 1898-99 when the Fowler Committee was studying the question there were apprehensions of the same kind; but the experience since then up to 1915 showed that although the Government did not give gold or sterling except for foreign payments and even then only in London and not in Bombay, still nobody was panic-struck; nobody went to get gold while he could get it, and things worked very smoothly. So if past experience is any guide, then, I think that in the next ten years the experience will be similar, that is, if Government simply gives gold or gold equivalents for foreign payments, and does not give it out freely for internal payments, it would not make any difference so far as the holders of rupees and notes are concerned. They will be unconcerned. That is my conclusion from past experience.

3781. You do not think that gold put into circulation will go into hoards?—There again we shall have to differentiate between the hoards as put in by a miser and as stores of value. If by hoards you mean stores of value which are brought out once, in two, three or four years when you want to make use of them, in that sense that gold will go into the stores of value of those people who have got sufficient money to put by because under the scheme one unit will be Rs. 15 or Rs. 13—it will be a fairly big unit for the great mass of the people. The remainder of that would be hoarding if you please of other things, that is, holding similar currency which would be rupees or notes. So I am not afraid of any large amount of gold money being hoarded in that way. Gold as bullion or as ornament is of course quite different.

3782. Now I come to quite a different subject. In paragraph 11 you lay down the reserves which should be held against the note issue. I do not see amongst the supplementary cover of the note issue any reference to commercial bills?—I have purposely kept that outside the ordinary note issue. I shall explain why. I know the practice in Germany of issuing extra notes against a certain tax; I know the practice in the United States; but comparing it with the practice with which we started here in this country of having an emergency issue which is entirely outside the ordinary note issue, I have come to the conclusion that that is perhaps the better way of doing it, and that is why it does not figure in the ordinary issue. Supposing we had 200 crores of note issue, even if 10 crores of emergency currency is needed to be issued, it would stand outside the 200 crores, it would have no reference to the gold or the other notes. It would be backed absolutely by the commercial bills against which it has been issued and will be automatically liquidated by those bills when they fall due. I think that is a better and a sounder way than putting it in as part of the total issue because then you have got to see, the percentage may vary, the gold may be so many per cent. more, the silver may be so much less. And it will introduce certain unnecessary confusion. The other is a far simpler way to my mind.

3783. Would you say it is true that most central banks base their note issue on gold and on self-liquidating bills because of the fact that the self-liquidating bills which are bills against goods in the last stages of production or going to market are the best security because they correspond to the need for expansion and contraction in the currency of a country?—Yes, Sir, that is true. Many central banks do that. I don't think the Bank of England does anything of the sort, but many central banks do that. But that is no reason why we should in this country slavishly imitate what has been done elsewhere if we find the other system is better. It is of course for your Commission to consider whether the system which is now in vogue with suitable regulations is the better way of doing it or of adopting the trade bills part of the issue as part of the total issue, because then I am afraid the percentage question will create difficulties.

* See also Appendix 18.

3784. But don't you think that any system should be as automatic in its operation as possible?—But, Sir, this will be automatic.

3785. Well, I am not quite sure that it will be. Your expansion occurs through the balance of external trade. Your expansion and contraction is the result of the state of your foreign trade?—I don't agree, Sir.

3786. It has no automatic device to contract and expand so far as the internal needs of the country are concerned?—Well, Sir, I have tried, if I may say so, I have tried to make the two very clear. The expansion of the note issue, or I won't say simply the note issue because it really means the expansion of the amount of the currency available to the country, does occur directly as a result of foreign trade. I agree. And then you say that for internal trade purposes there is no automatic expansion. Is that the point?

3787. That is the point?—Well, for what internal and trade purposes? In normal times I don't think any such expansion is needed, because as I have tried to explain, the bulk of the movement of goods to the ports is for the exports and it gets financed automatically through import of gold or gold securities against which currency is issued. So that question will not arise excepting in a year when trade depression is very severe and the countries outside India do not want India's goods and stocks accumulate in the ports and in the interior big markets. Then it is possible that a further supply of currency may be needed and we might then, if we have a proper discounting arrangement in this country, which unfortunately we have not, find that the surplus of finance will automatically gravitate to the final discounting agency, the Imperial Bank, which bills they will tender and take out currency on from the Currency Department and if later they don't want that extra money, they will repay those bills and the currency will automatically contract. So that I think, Sir, if the present system worked properly, which I don't think it does, the bills to-day are not correct trade bills,—if they were, then I think the thing would work automatically.

3788. But Mr. Madon, is it not a fact that a discount market can only develop when you have a central bank which is prepared to rediscount all true commercial bills at any time and in all circumstances?—I agree, Sir.

3789. Very well, then. If you rob the note issue of the backing of commercial bills, how is the central bank to manage its affairs, to give to the country the discounting and rediscounting facilities when they are most needed?—I will try and explain. I don't know whether my answer will be complete to you. But I will simply take an instance, that the Imperial Bank becomes the central bank of the country with all the reserves entrusted to it. Then I also assume that the Imperial Bank on the recommendation of this Commission undertakes to rediscount. Then what will happen is this, Sir. The Imperial Bank will go on rediscounting bills offered to it and in times of stress those bills are bound to come to it. If the stress is not there, it proves that there is no additional currency required. And when the Imperial Bank finds that its advances for rediscounting are up to the full extent of its reserve, it may take some of those bills to the Currency or Issue Department and say: we want this to be discounted, and the Currency Department would then rediscount the bills up to the extent of whatever figure the Commission would recommend and that would be automatic expansion. And whenever any of those bills fall in at maturity, it would be automatic contraction. The present practice is different, but I would like the Commission to look into it and to suggest recommendations from their experience of it.

3790. You would consider it a desirable arrangement that the Currency Department should rediscount bills of the Imperial Bank? How is the Currency Department to know what are good and what are bad bills?—If they are presented by the Imperial Bank with its own endorsement and if the bills have come in the right way with the endorsement of the local banks—sometimes there are one or two parties—private local merchants—then one of the banks has rediscounted. It may be that two or three banks have discounted. Bank A has discounted but as a matter of fact wants money. Bank B is prepared to discount at ½ per cent. cheaper. Then if Banks A, B and C are unable to take any more, then with their endorsement they would take the bill to the Imperial Bank. If it has the reserve, it will rediscount them. If the Imperial Bank finds it cannot do it, then it will have to send to the Issue Department with its own endorsement and get money from them. So, Sir, the question whether the bills were sound would be automatically solved. They would bear on their faces a certificate that they were sound because there would be so many people between the Currency Department and the ultimate drawer of it.

3791. And you would therefore leave it to the judgment of the Currency Department whether or not the emergency has arisen?—I would not put it in that way, Sir.

3792. But if the Currency Department is to rediscount, obviously it is within their discretion to refuse the Imperial Bank to rediscount?—I would say, Sir, that what would happen is that, if the Imperial Bank has got to go to the Currency Department and say: We want to discount 5 crores, it is a proof of the emergency, because the Imperial Bank would not go there unless its own funds were fully invested and more funds were wanted. So what the Currency Department would have to do is solely to carry out its duty under the statute, that is to give further currency against such bills at the particular rate that may have been laid down by statute.

3793. You would make it a statutory obligation of the Currency Department to give currency against bills that are classed emergency bills at the sole judgment of the Imperial Bank?—I don't say classed "emergency bills" at all. Because then the discount market would not be right. You would be merely helping people when they were in distress. That is no solution. It may be that the trade of the country is quite good. People may be doing good business and still they may require a larger amount of currency than ordinarily. So I would not say that the Currency Department should start by asking whether they are emergency bills or things of that sort. It has simply got to say—when the Imperial Bank or the Central Bank of the country comes to it and says "We want to rediscount with you so many crores"—it has got to say that it has already had so many bills, the limit is so much, and that it is debarred by statute from doing more. I believe that is the present position. Sir Norcot Warren may make it clearer. I don't think the Currency Department picks and chooses between bills you take to them and say: Are these emergency or not?

3794. No, I am asking you whether that is a desirable organisation because I understood from your memorandum that you think a currency system which is self-contained and under the charge of a real central bank is the ideal to be aimed at?—I agree. But there the Issue Department, I have made it very clear, should be independently maintained. It should not be part of the general banking business of that central bank. I don't call it ideal. I would rather carry out the thing on the model of the Bank of England.

3795. May I go a step further? You said that the most desirable bills to be discounted by the Central Bank are self-liquidating bills representing goods going to market?—Yes, Sir.

3796. And you would regard a bill drawn against commodities which are held up, whether because of general circumstances or for speculative purposes, as unsound bills, wouldn't you?—Well, Sir, if you begin by assuming that they are held up, then the thing would have to be further analysed. **Held up for**

speculative purposes, that is because the holder thinks the market is going to rise very high or held up because there is no market. The bulk of the bills would be, in times like those that I am anticipating, times of trade depression, they would be bills against goods that are held up not for speculative purposes but because temporarily the outlet is stopped.

3797. Could you distinguish between bills drawn but held up for speculative purposes and those whose purposes were good? Could you really distinguish between the two?—No, Sir. I don't think I could.

3798. Very well, then, how is one to judge whether these are really good bills in an emergency? Wouldn't you prefer to say that all bills should be self-liquidating for a short period only?—For a short period undoubtedly. That I agree with. I never meant that any such bills should be over six months or a year. I am not sure, but I think I have mentioned that they should not exceed——

3799. In your paragraph 22 you suggest that an emergency issue would only be needed for financing Indian produce when for some reason the foreign demand for it was poor and the produce had to be carried for a considerable time. They are bills drawn for a considerable time?—No, Sir. If you will kindly turn to the heading "What kinds of Bills should be made eligible" (Appendices, page 165), you will see what kind of Bills I have aimed at. I have made it very clear.

3800. I was not sure whether that also referred to the emergency bills?—I only meant that. At the top, I speak of the emergency currency required, and the last paragraph says what kind of bills. I mean them to be for emergency.

3801. Then of course they could not carry for a considerable time the produce which was not sold?—What would happen is that some of the produce would be sold all the time. Some holders would be selling at a low price; some might hold; but if the Bills are 60 or 90 days' bills, then by the time that bill falls due, whoever the drawer of the Bill is will have to see that it is realized and get money, and the indorser will have to see also. So they will be self-liquidating, and I do not think the fear you seem to have in your mind that some of these bills might be used merely to hold up goods for a very long time would be realized.

3802. Then there is one other question. I think you contemplate under your scheme that the Imperial Bank should hold what is now termed the gold standard reserve, that is to say a reserve to secure the exchange value of the rupee, which would be held by the Bank and managed by the Bank under rules to be laid down by statute?—If you will kindly explain to me what you mean by "managed."

3803. Well, I am asking that question in connection with your clause 16 where you make it impossible for the Imperial Bank to deal on its own account in foreign exchange?—How will that affect the question?

3804. I will tell you. You contemplate a reserve held only in gold?—You mean the gold standard reserve? The paper currency reserve I contemplate entirely in gold for the future. I have made it perfectly clear that a part of the gold standard reserve which will remain after my scheme has been adopted would be invested in securities and would be allowed to accumulate by interest earnings year by year.

3805. And finally you propose to turn it into gold?—Finally, that is when you make up your mind to give gold freely and make it an obligation of the Currency Department.

3806. Well then you will have to acquire gold. Now it is conceivable that gold may be cheaper in one country than in another. You may be able for instance to buy gold cheaper at Durban than you can buy gold in London. How would you propose to settle that purchase of gold in Durban if the Imperial Bank is not permitted to deal in foreign exchange?—What the Imperial Bank will have to do is to go into the gold market, say in England, and offer its sterling holdings, say one million, and say, "we want gold." Then some of the South African banks would be selling the gold to them and taking their sterling from them. That would solve the question. The Imperial Bank however should not dabble in exchange. It ought simply to buy the gold at the best possible rate in London; the gold and silver markets are so sensitive that the gold quotation will be the lowest that is feasible in any part of the world.

3807. To give an illustration, you can buy gold in Durban to-day at something like two pence an ounce cheaper delivered in India than you can in London?—I am afraid you have misunderstood it. You buy it in London: that does not mean that you take delivery in London. Some exchange Bank will say, "all right, we will deliver gold to you in Bombay"; they might bring it from Durban or Melbourne or San Francisco, but what I want to make clear is that some bank in London will be coming to the Imperial Bank and give the best possible quotation for gold from some point in the world where it holds it. The Imperial Bank need not dabble in exchange and go into the exchange market.

3808. You will admit that in these circumstances the Imperial Bank is confined to buying gold in London only even though there may be a substantial difference between the London price of gold and the price of gold in any other centre?—If you would put it that way then I would very much prefer that the Imperial Bank should buy from Bombay and ask sellers to tender for delivery in Bombay or Calcutta and allow them to come forward, and competition will give you the cheapest price from the nearest point where gold could be laid down cheapest.

3809. You agree however that if you debar the Imperial Bank from any foreign exchange dealing, then if they were not allowed to go to gold standard countries and hold their currencies, the only way of settling the foreign balances would be by way of shipment of gold?—Exactly.

3810. And that that is a rather expensive procedure?—I do not agree. The expense would be for the other parties. The Imperial Bank has got the gold. By the Imperial Bank I mean the currency authorities of the future. They would have the gold in Bombay. Somebody applies for it, the Imperial Bank pays it out and there the expense and cost is over. It is the party taking it to say Japan which meets the cost. To Port Said or to Egypt it may cost him very much less. That has nothing to do with the Imperial Bank.

3811. You will admit that if they were allowed to hold foreign gold currencies, the loss of shipping gold would not arise?—I do not agree that there is any loss. If you say that the profit they might otherwise have made would be less, then we might agree.

3812. Let us not split hairs?—Then my point is that if that profit is a desirable thing, why does not England do it? Why does England import gold? If they are so foolish, then I would simply say that India would be in the same foolish company also. The manipulating of currencies is in my opinion likely to lead to very serious abuses.

3813. There are only two more points. In clause 18 you prohibit the Government of India or rather the Secretary of State remitting home more than what is needed for the current financial year. In clause 20, however you say that in case there should be an undue demand for sterling, you would recommend that the Secretary of State, instead of buying sterling, should borrow in London?—I am afraid we are again at cross purposes. I do not speak of any undue demand for sterling by the Secretary of State. I speak of the trade balances. What I say is that if the trade balance is adverse, and India has to pay out gold on account of its balance of trade in order to make the settlement, then at that moment the Secretary of State should not press India to simultaneously pay him his own dues but should

temporarily tide over it by financing himself in some other way, and I would point out that that is what England's practice is to-day as regards America.

3814. But why debar them from the reverse process? If for instance there is an exceptional supply of sterling through an exceptionally fine harvest, would it not be well to assist in maintaining the purchasing power of the rupee stable by the Secretary of State remitting not merely the year's requirements but something more?—I am afraid we cannot go into the ticklish question of the purchasing power of the rupee. If you put the question in a general way whether the Secretary of State should draw more or not, I would say that he should not unnecessarily withdraw from India a single rupee that he does not require for India's ordinary liabilities. No agent would be allowed to do that, and the Secretary of State, as far as these payments are concerned, acts as the agent of India. India has to get a stock of goods and to get certain services and she has got to pay for it; the Secretary of State acts in London as the agent of India only to carry out those obligations. Why take away more money? I think it is wrong in principle.

3815. It only struck me that it is rather an unbalanced arrangement. In the one case you ask him to give advantages away, to borrow in order to pay for, at a high rate of interest, and in the other case you debar him from doing the reverse transaction for the self-same object namely to maintain as far as possible the purchasing power of the rupee?—That is where we are in disagreement. That object is not an object for which he should act in that way. I do not think he is right in manipulating the currency for the purpose of maintaining the purchasing power of the rupee.

3816. (*Sir Maneckji Dadabhoy.*) The Chairman has very exhaustively examined you on most of your memorandum as well as in connection with your verbal evidence and many interesting points have been elucidated. I now wish to make certain points perfectly clear. I would just like to get a few points cleared in order to appreciate exactly your position, and I would like you to tell me if I am correct in my conclusions with regard to the principal points of your evidence. I gather as a result of your discussion that you do not find fault with the currency policy of the Government since 1894? You are of opinion that on the whole it has worked satisfactorily but that in certain respects it has been not managed correctly by the Secretary of State and the Currency Department and the Government of India?—If you will say from the year 1900, then I would say that your question was substantially correct.

3817. You think that my conclusion would be substantially correct and that during the period 1894 to 1900 it was on the whole satisfactory?—No, it was not entirely satisfactory. I have not gone into detail because that is old history and it is not profitable. Everybody knows about it.

3818. Then I gather from your evidence that despite the circumstances it will be wholly unprofitable to reconstruct or to re-establish the pre-war gold standard exchange? Am I right in drawing that conclusion?—I have made it very clear that in view of what had happened, the gold exchange standard is not a system which should continue.

3819. And therefore it will not be profitable to reconstruct that pre-war standard?—I would not support it in any shape or form.

3820. Then I also gather from your memorandum that if we were dealing with a gold exchange standard, practically, we have in fact rooted a gold standard? You agree in that view?—What did you say? I could not hear it.

3821. That we had practically made a beginning of a gold standard? Am I to understand that though we are nominally following a gold exchange standard since 1900, latterly we have been making headway or gradually taking steps towards the gradual establishment of a gold standard?—Well, Sir, If you want an answer to that, my answer would be this: Up to the year 1899, from 1893 onwards, apart from the individual steps about which I said I am not satisfied, the goal always was a gold standard with a gold mint and a gold currency and that is made very clear from the letter of Lord George Hamilton, the Secretary of State at the time, to the Government of India. I think I have got it somewhere. I will try to give the actual words used in that letter of Lord George Hamilton. "I told your predecessor that it had been decided to refer to the committee, the proposals of your Government with a view to the completion of the policy initiated in 1893 when as a first step towards the establishment of a gold standard, the mints were closed." This is a very brief sentence. I have tried to summarise it from more than one sentence, probably ten sentences. But the words are those, word for word, which were actually used. I will quote another sentence. "The Committee indicate their conclusion that steps should be taken to proceed with measures for the effective establishment of a gold standard and recommend that the Indian mints should be thrown open to the unrestricted coinage of gold." Then, Sir, in another paragraph in the same letter he says: "I have, therefore, decided that you will make preparations for the coinage of gold under the conditions suggested by the Committee." Now, Sir, up to that point, that is in July, 1899, it is perfectly clear that the authorities, both the Government of India and the Secretary of State, had a gold standard with a gold currency in view and what is more, Sir, a year or two later, Sir Clinton Dawkins in the Viceroy's Council did say, I have not got the quotation here, but I perfectly remember it, he did say that arrangements had been made for a gold mint, that officers were on their way to Bombay to see that the mint arrangements were satisfactory and that the thing would be started very early, and then God only knows what happened. So if you ask me whether we began like that, then I would agree with you. But if you say that we went to it step by step, then unfortunately my reply would be that we step by step went backwards instead of forwards.

3822. That is, it came in at a later stage, at the time of the Chamberlain Commission?—What came, Sir?

3823. Receding step by step?—No, Sir. It was throughout so. That is, the gold mint was not open, gold was not allowed to be coined here. Then gradually the law provided that against gold tendered in India rupee currency should be issued. The Secretary of State took measures to give a little cheaper rate to people who tendered the gold in London instead of in Bombay and in that way he diverted shipments of gold, so much so that shipments from Australia passed by the gate of Bombay to London instead of being landed here; and then later on, in 1907-08, they went further and took it that the gold standard reserve was a superfluity and might very well be invested in something else and some of it was used for railways.

3824. (*Chairman.*) I think this historical analysis is very fully set out in the memorandum of Mr. Madon, and I am afraid we are rather imposing upon his time by asking him to recite the particulars in this way?—What I want to make clear is that we were gradually retrograding instead of gradually progressing.

3825. (*Sir Maneckji Dadabhoy.*) I understand that you make three substantial complaints, and if I am right in understanding you, that the use of currency notes in internal circulation was not properly encouraged?—I am afraid I have not said that. Which part do you refer to?

3826. In connection with the gold exchange standard?—The question of a small note and the encouragement of currency note instead of gold had been considered not in the pre-war days but in 1916-18; but then both metals, gold and silver, were very scarce.

3827. Regarding this gold standard reserve, I understand that in your opinion there will be no serious drain on the resources of the country; because we shall not require at the outset more than 30 or 40 crores worth of gold?—If my scheme were adopted?

3828. Yes?—Yes, that is my opinion.

3829. When giving your opinion you have taken certain figures. You have said that 200 crores will be the metal rupees and 189 crores notes, and you have made a provision of 125 crores of gold to be put in circulation, and if you take 125 crores from 389, there remain 264 crores. Will you make it perfectly clear what resources you will find to convert this 264 crores into gold?—Well, Sir, that leads to the theory of the percentages of gold to be held in the reserve. 125 crores of gold and quasi gold by which I mean securities amounts to some 32 per cent. and the total of 389 crores is, only to take the case of England for comparison, not only pound notes, but shillings and pence, the small currency, is there in those 200 crores. So what I would like to make clear is that according to the present accepted practice 32 per cent. will not be by any means a backing to be despised, and if the scheme is carried on as I suggest for the next 10, 12 years, then automatically the backing will improve, because while one crore of gold will come in against one crore of currency, the percentage will constantly increase. It is Sir Henry Strakosch that wanted me to say what would happen in the case of the remaining 264 crores, and you want me to say the same thing. My reply would be that the present currency experience would show that in normal times, that is, when trade is ordinary and there is no panic, this 32 per cent. with which we start will be adequate, and will be even much more than adequate in the next ten years, because it might be 42 or 52 per cent. Then I have tried to emphasise that part of it is really shilling currency, and that shilling currency will continue to be required for small changes. So I do not think that the 264 crores require any apprehensions on our part.

3830. But then during this transition period, if one or two severe visitations, say of famine, take place, will not all that gold disappear?—If the visitation is again a big war, this gold is likely to disappear, because then people will try to change everything into gold and hide away that gold as a store of value. But apart from a big war, if it is merely a trade crisis, then the holders of the rupees will be already in a very tight position and would not be able to meet their own current engagements, and would not be in a position to think of converting some of these rupees into gold and hide away; that would not occur.

3831. Then your position, as I understood you, was this: that it was not necessary for India to buy gold to start its operations; but it should gradually earn that by adjusting exchange on commodities and gradually build up her gold?—That is my idea.

3832. During the transition period and before actually going for a fuller gold standard?—Well, Sir, I will again have to call attention to the definition of the word " fuller." To-day England is not giving gold for internal circulation, and many other countries are not, and still that is not considered to be any serious derogation of the gold standard. So if India does not do that for the next 20 years, I do not think it will be considered any derogation. So we need not talk of a fuller gold standard. But if you say " before we can consider giving gold out into circulation," then I would say certainly we might do it after an interval.

3833. Assuming that we have to find this gold, I would like to put to you one or two queries and like to have your considered opinion. Assuming that we have to obtain, say, 100 or 150 crores of gold for this purpose, for converting the note issue into gold coin or other bullion, you know that there is a large amount of silver in the hands of Government which will be of little use once we introduce the gold standard and could we not sell that silver and acquire gold instead?—And what would be the economic effect of it? The Government holds to-day about 90 crores of silver in the paper currency reserve. If that is what you mean, and then there are metal rupees in circulation, and if no more rupees are to be coined from to-morrow, then apart from the absorption of which I spoke in one of my replies to Sir Henry Strakosch, we have got to consider the larger needs of the future population of this country for small change, *i.e.*, shilling currency. I do not mean merely annas and pice, but bigger subsidiary coin, the rupee, and it may even happen that 10 or 15 years hence, you might find you want all these shillings in India in circulation, and that there was no need to go and sell them. I would postpone settlement of that question until we know the situation better.

3834. Are you in favour of Government's selling its sterling securities to acquire more gold?—Which securities, you mean in the paper currency reserve?

3835. Yes, in the paper currency reserve?—There is this to it. Sterling securities are in England. They are English securities. So there would be two considerations. First of all, you might to a certain extent, if you wanted to liquidate them rapidly, disturb the London financial market. Then, secondly, after you havo realised securities and got your pounds at credit in the Bank of England, if you wanted to have them in gold, you might have to disturb the reserve of the Bank of England, which again would react on the whole currency fabric in that country, and, as that country to-day finances the world, it might affect a great many other people besides England itself.

3836. It will not be a sound policy?—I would therefore say, Sir, that although India would be entitled to say that it wants to sell off its paper, that it wants to take away the cash to its own country, practical considerations should make us do it in such a way as not to disturb the economic position of the world around us.

3837. That is, you suggest that in any settlement we should not look to the primary interests of this country, but also look to the economic disturbances in other countries. Might I gather that from your reply?—Well, Sir, the position is this, that the sterling securities were held before we had to consider this kind of question. They are there. If we had not accumulated sterling securities and only acquired gold, then I am quite sure that it would not have been felt by the Bank of England or by any other gold country because it would have come in driblets according to India's credits and over a space of years. Now that we are in that position, we cannot ignore the consequences of that position, and we cannot say " Well, I will look after myself; I do not care for the world." If you will permit me to repeat a Hindustani proverb, "*Sub subki sambhaliyo men meri fodta hun.*" To translate it, " Let each one look after himself; I am looking after myself." So I do not think that would be a practical solution of it.

3838. It would not be a reasonable solution? Let me give you one fact. When the Western countries demonetised silver, did they look to India's interests, how it would affect the silver market in our country? —Unfortunately, no. But if we find doing something equally foolish disturbs our trade, we have got to consider when we wish to do the same thing. It is no good saying " They hit us 20 years ago; let us hit them back now." While we are trying to do that, it may recoil on us like a boomerang.

3839. Of course, there is no doubt about that?—In one of the questions, I think by Sir Reginald Mant, it was advanced that since 1873 the larger demand of gold which Germany's going over to silver had created had led to the depression of that period and not merely the peace that I argued was the main cause. But there is no doubt that part of that depression was undoubtedly due to the fact that silver was thrown over and gold was adopted as currency by France and Germany and many other countries of Europe. So if that is any lesson to us, then

we have to walk more warily to-day, and not to say "We do not care a hang for the world; this is India's gold; we want it and shall take it." We should certainly do it more carefully.

3840. What do you think of the appropriation or the utilisation of the interest on sterling securities for the purpose of building up our gold standard?—Well, Sir, there are two parts of it: we have the interest earned in the paper currency reserve, and then there is the interest earned in the gold standard reserve. Under my scheme the gold standard reserve will be reduced by 10 millions, but that will go into the paper currency reserve. So the total under interest earnings will continue, but I wish to allocate them differently. I have suggested that the earnings in the paper currency reserve may go to the credit of revenue as they are doing now, and the earnings in the gold standard reserve may accumulate in that reserve. That will mean a little sacrifice, but I think we might safely face that, so that that reserve might be more rapidly built up.

3841. I will ask you only one more question as I understand my colleagues have to ask you some questions. In your opinion, what period of moratorium will be required for enabling the public to convert silver currency? We shall have to fix some time; before making the rupee limited legal tender, we shall have to give some period to the public to convert their money, and I ask you in your opinion what period of moratorium will be required?—I think, Sir, that question again hinges on the experience that we might acquire in the transition period of the first 10 or 15 years. If it is found that the amount of rupees left is not very large, then with our considerably higher limit for the legal tender than the shilling has in England, we might safely do without any moratorium, because if the limit is, say, Rs. 500 or Rs. 1,000, then I for one am of opinion that a very large amount of rupees held will be by individuals whose separate holdings will not amount to that figure, so that most of them should feel satisfied that the rupee was quite as good to them for expenditure purposes, for buying the things they need. So I do not think a moratorium will be necessary; but that problem might be reconsidered when we are at the end of the transition period.

3842. (*Chairman.*) We must not trespass unduly on Mr. Madon's time?—I am at your service; we do not have this sort of Commission every day.

3843. And we do not have the advantage of your presence every day; but as there is the important question of the ratio to be raised, perhaps we might deal with that now and if there are any more questions on the first heading we might return to those later. Let us now turn to the second heading of the Ratio. I understand, in your opinion, in the first place, as you vigorously express it, that as regards the solution of the problem we are discussing, for the last two years India has been even more ready for the gold standard than any other country; and that implies also, in your opinion, that the time is ripe for the fixation of the ratio of the rupee?—I would merely modify that by saying that if my answer implies the gold exchange standard, I am not for it.

3844. I do not think there is any implication of the sort?—The only thing we should have to do is to select our new gold coin and if it is to be the sovereign then you have to see how many rupees would circulate as equal to the sovereign. To that extent I think we have to consider it.

3845. Just to direct your mind to the considerable volume of evidence we have received, you do not foresee any disturbing effect in the general monetary position of the world such as would make it prudent to wait for another period before taking any action as regards Indian currency?—I do not think so, because with all the other important countries of the world coming back to gold I do not see any advantage in India holding out.

3846. You express a very strong opinion, which you support with considered arguments, that, to follow your own wording, the ratio of rupees to the gold coin should be 15?—Yes, sir, because it is the pre-war ratio.

3847. That is usually referred to as the 1s. 4d. rupee?—Yes, sir.

3848. I just want to test your view, if I may, and you will understand that, if my questions are directed to testing your arguments, it does not imply the adoption of any particular point of view on the part of the questioner. I understand you not only admit but affirm that any change up or down from a given rate must cause inconvenience and loss to a section of the community. In that given rate would you include such a rate as the rate at present current, the 1s. 6d. rate?—What I had in mind was the controversy whether now that we are on 1s. 6d. we could go back to 1s. 4d., and I have tried to answer that argument.

3849. Yes, but it is a perfectly clear statement by itself that a change up or down from a given rate causes a certain amount of inconvenience and loss to a section of the community?—That is perfectly correct.

3850. Then you continue: "But such considerations should not be allowed to stand in the way of doing the right thing." I am trying to get precisely at your opinion on this point: What is the rightness involved here apart from the question of convenience? Can it be right or wrong to do something in connexion with currency which is not convenient, convenience being, of course, convenience to the general public?—If you will permit me to make my point clear, the coin on which we have based all our transactions, really means if we are on a gold standard how many grains of gold I owe to another man or that man owes to me; and if I had borrowed, say, a thousand rupees from a man 10 years ago, it would have amounted to my having borrowed 7,500 grains of gold and my liability would be to return 7,500 grains of gold and it would be finished. If you change that to 8,500 as to-day's rate would make it change, you are increasing my liability and are vitiating my contract and inflicting an undeserved hardship on me as a debtor.

3851. That analysis refers to contracts which were entered into at the time at which the rupee was on the 1s. 4d. basis?—Yes, sir, I mean that.

3852. I am sure you would be prepared, in maintaining that case, to have this point adduced for your consideration, that if, on the one hand, the 1s. 6d. rate upsets the contracts entered into when the rate was at 1s. 4d., so, on the other hand, a return to 1s. 4d. would upset contracts entered into when the rate was 1s. 6d.?—Put that way it is correct; but then you have got to consider the volume of contracts and the period of the contracts.

3853. That is just the question I wanted to ask you. Let me phrase it in this way: What is your reason for supposing that the bulk of interest concerned in contracts entered into when the rupee was at 1s. 4d. is a greater volume of interest than contracts entered into when the rupee was at 1s. 6d.?—Yes, sir, that is very simple to answer, because up to I may say the beginning of 1919 the real rate was 1s. 4d. gold, although the market rate was 1s. 5d. or 1s. 6d., because the New York cross rate had been at 4·76, which meant that sterling was about 2 per cent. less than the gold value. Even at 1s. 5d. we were on a gold basis much nearer 1s. 4d. That continued up to the beginning of 1919 from about 1898; that means that for 21 years we had certain contracts based year by year on the basis of a coin which was 7.53 grains of gold and not more. Then we come to a more surprising part of it. About the middle of 1919 we had this Committee, and in the meantime the rates were put up by 2d. at a time; but when you come to the middle of 1920 again we notice the curious fact that exchange was once more very near 1s. 4d. gold and on the very date that these two famous Bills were passed, the Coinage and the Paper Currency Amendment Acts, calling the rupee 2s. gold, the actual rate of exchange converted at the New York cross rate was 1s. 4d., and thereafter it has never been more than

1s. 4d. until you come to October, 1924; so, twenty-one years before 1919, then one year of abnormal times, and then again five years up to 1924 we had all contracts and all transactions based on 1s. 4d. gold as the unit, and the 1s. 6d. gold has been in existence only since I may say March or even April, 1925, when England went to the Gold Standard, because until then even the 1s. 6d. was sterling, not gold. If you wish it, sir, I have got the figures here worked out in gold——

3854. We have those figures?—Then you will find that I am correct in making this statement.

3855. What are the particular classes of contracts which you have in mind that have run for a long period, for a period so long as to date back to the time when the rupee was stable at 1s. 4d.?—The bulk of the agricultural debt, for one thing.

3856. Land Revenue?—Not land revenue; land revenue is also one of the contracts; but I mean the borrowings of the agriculturist from his banker or moneylender.

3857. Are they in the nature of mortgages?—Yes.

3858. What periods do mortgages run for as a rule?—It is not a few months or even for a few years; they run on for years together.

3859. They are repayable?—In agricultural business the farmer repays when he has a surplus; if he has not the banker has got to carry him. That is one class; then there would be in industries a great deal of borrowing on debentures or in other forms and that also would be for ten, fifteen, or twenty years; it would not be short.

3860. All fixed investments?—Yes; and fixed long term investments would necessarily have been on the 1s. 4d. rupee basis, because the 1s. 6d. rupee was in existence for very brief periods, as I pointed out.

3861. Then there are long term contracts of service?—Yes.

3862. On the other hand, all ordinary contracts for the purchase and sale of commodities and all contracts upon which wages are based are characteristically short term contracts, which work themselves off either in the space of a few moments or, at the most, at a month's notice, and so on?—The position is this: these are short term contracts and theoretically you can say that the question was simple because you have simply got to revise them and there is an end to it; but it is not so easy to do as to say, because the moment you want to revise wages downwards, as this would make us do, there is a very severe conflict, as there was, as you are possibly aware, till only a few days ago in Bombay—a big mill strike. Wages have been mainly on the basis of the 1s. 4d. rupee; they had been revised upwards to come into parity with 80 or 90 per cent. over pre-war levels, and then if you make the rupee 1s. 6d. it means that these wages have got to be readjusted, and industrial wages cannot be re-adjusted without very severe social disturbance. Then, sir, we might be told that these industrialists are trying to get out of their responsibility and that the Government would not be concerned in it. I would point out, as regards that, that Government themselves have raised all the wages of their employees, from the highest downwards, and adjusted them to fit in with the so-called high price level. If Government think that these adjustments are possible, let them begin by setting us an example and by cutting down the salaries of their employees, covenanted or uncovenanted, by 12½ per cent. I think that this readjustment is not so simple as people make it out to be, and, if after readjustment things are to be where they are, then why go into it at all, and why create this social and industrial upheaval?

3863. Why create this social and industrial upheaval?—Because if I may be permitted to make it clearer——

3864. Might I put a question on that point which will serve to lead you in your evidence? Your last sentence suggests to me a point on which the Commission would like to have more illumination. You ask, why create a social and industrial upheaval by adopting the current rate of 1s. 6d.?—By compelling employers to make a reduction of wages which the current rate would imply: that is what I mean.

3865. The point upon which I think the Commission would probably welcome your opinion is this: Have wages and prices not substantially adjusted themselves now to the current rate of exchange, and would it not, just to complete the question on the other hand, rather be creating a social and industrial upheaval to take measures for the change of the rate from the present rate to some other rate, be it higher or lower?—My reply would be this, that the present wages in industries as well as in all the services, including the Government services, have been at figures which have been fixed a good deal before October, 1924, when this 1s. 6d. rupee was nominally effective—it was a sterling rate—and very long before April, 1925, when it was a gold rate; and you will find if you call for evidence on that point from employers and from Government Departments that these wages and salaries have not been adjusted and could not be adjusted; it is not feasible. The employee does not understand this manipulation of exchange rates and he could not be induced to see the reasonableness of the reduction because the exchange has changed. Then, sir, there is the very much larger question which comes in, that if these wages have to be reduced in any case in order to adjust things, they can only be reduced by employers being forced to do it; they would not voluntarily invite such a struggle; and employers being forced implies again that they will be working at serious losses, and some of them driven to the point of insolvency and find no other resource but to cut down their costs in order to exist; so that it is not only a question of a few men getting a penny or 2d. or 3d. less per day; but it is a question of the industries as at present owned continuing. Undoubtedly some of them who are sufficiently strong to stand the shock may continue; but the weaker ones are not able to do it and the proof of it is the liquidations that have been going on in the last two or three years.

3866. In your opinion would you expect in India, under present conditions, to find wages, supposing adequate indices as to wages were available, showing the effect, reacting, that is, with reasonable promptitude to changes in the rate of exchange, or are you of opinion that there may be other influences, quite apart from the effect of exchange rates and prices, affecting the general movements of rates of wages in India which would mask the effect of prices upon wages?—Well, Sir, as far as the wage earner is concerned, and even the capitalist who employs him, I am quite sure neither of them understands that exchange has anything to do with it. The bulk of them do not understand it.

3867. My question rather is this: apart from what the employees think, are there other influences at work, affecting the rates of wages in India, which would tend to mask the effect of a change of prices brought about by changes in the rate of exchange, for instance, the general education of the wage earners, teaching them to expect and to extract higher wages and a better standard of living?—That would be correct; but I do not see how that has a bearing on the exchange unless you can make it more clear to me.

3868. If I may say so, the mental comment which I should register for my own benefit on that would be not to expect to get very much illumination as to the adjustment of wages from any particular rate of exchange. Have you any statistics as to wages?—My point would be different. Apart from any causes which you have in mind and which may also influence wages and prices, this is one of the particular causes which directly influence prices and, through prices, wages; and what I say is if this unnecessary interference with prices and wages is avoided, it would certainly be highly desirable because other causes will continue to operate and influence wages and prices. That I do not dispute.

3869. Now, turning from wages to prices more particularly, let me refer you to such index numbers as there are available of general prices in India. I imagine you would agree that too much reliance must not be placed upon them as a guide?—Yes; if you put it that way I am entirely in agreement; I would not take them as a guide at all. If you do so, I would take them with very great discrimination.

3870. We must be fully alive to the necessity for caution, but accepting them for what they are worth, would you say that the general Calcutta index number showed that, on the whole, prices had adjusted themselves in India to the present rate of exchange or would you say that, for what they are worth, they do not show that?—The answer would be that prices, at every moment in a country like India particularly, which has practically all its main lines of produce exported, are bound every moment to get adjusted to the rate of exchange. There is no question about that, but whether those prices are fair to the producer is an entirely different question.

3871. If they are adjusted at the present rate it would follow that, if the rate were to be changed by some such procedure as is described in the concluding portion of your memorandum there must be a fresh disturbance in prices?—It would not be a fresh disturbance, Sir, because the disturbance has been there for the last five years; practically every month, if I may say so. The disturbance has always been there. And then, have you the figures before you—the Calcutta index—if you will permit me I will pass them on to you.

3872. The Commission has them?—It is on them I am trying to base my reply. It is not enough to merely look at the general average. It is the most misleading thing here. You have got to look at the particular items and then you will find that the items of Indian production on which the income of the agriculturist depends—and you no doubt know that the agriculturists are the largest part of the population—are all very much below the general price level. So, if there is any real readjustment of prices which gives the agriculturist a slightly higher level than he gets now, it would not be an unfair readjustment but a fair readjustment, a necessary readjustment, if I may be permitted to say so.

3873. I should like to ask you a question which you may find too hypothetical to care to answer, but I should find your answer illuminating if you could give me one?—I will try.

3874. Supposing that time had gone on and that, by natural forces, the rupee had remained stable round about some level, say its present level?—How, by natural forces? Will you kindly explain?

3875. Let me cut it out if it is going to cause any difficulty?—Because there is no such thing as a natural level—it is the level on which the rupee is valued in gold.

3876. I quite agree that it was an unnecessary introduction?—That word "natural" has also been very much abused in this country in controversy.

3877. Supposing the rupee remained at a level of 18 pence and continued to remain at that level, would your opinion be that, however long that period continued, still in view of the past history of the Indian currency it was right to go back to 1s. 4d., or would there come a time when you would accept the *status quo*?—I hope no offence will be understood from my reply. The rate of 18 pence has been in India for not more than 8 months. The Germans were in Belgium for five years but because they were there the British never admitted their right to remain there. If a thing is wrong, it is wrong. It is no argument to say the thing is there, the robber is in possession, and you ought to allow him to continue in possession. The thing is that you come to the conclusion that the thing is unfair, unjust to the bulk of the population and particularly to the poorest as I hold, and the only thing that Government should consider is whether justice does not require going back. The continuance of the present rate would mean this, Sir, which I am afraid is not properly appreciated. It will mean that the agriculturist will be getting much less money than ordinarily he should. His mortgages will some of them fall in and he will become, instead of the owner, a tenant-occupier as has happened on a large and increasing scale in the last two or three years on the Bengal side. Only this year the jute prices have saved them. Now, Sir, the retention of this ratio will mean that a great number of agriculturist owners will disappear and become tenants, industrial owners will become bankrupt and their plants will be sold at lower prices to other capitalists. And of course, after all that adjustment is completed, say five or ten years hence, we should be no better off than we were in 1900. Do you think that desirable? Should we do it?

3878. No. I think you have answered my question very fairly. You would suggest that, if the state of affairs which you consider to be very undesirable worked inequity, if it were to continue for a long period—you mentioned ten or twelve years?—That is not for the 1s. 6d. rate.

3879. I thought I understood from your last answer that there would come a time, if the inequity continued, when things would be adjusted, and you would not recommeud a change?—After 10 or 12 years? Well, Sir, most probably I would not. But the effect would be like that of plague or influenza. A great many who now live would have died, a younger generation will have grown up and have forgotten what was done, and they would say: "No, we don't want any change." But the generation to-day that is plagued with these things, they want to get back to a rate which will do them justice.

3880. But, then, the determining circumstance as to when time would have elapsed after which it would not be worth while to change would be whether all the evil consequences of the original change had worked themselves out and things had settled down on a new basis?—Do you wish me to imply, Sir, that on that understanding I would agree to the rate remaining as it is?

3881. Not at all. There was no such implication in my mind?—Of course, if a thing has been there for many years, then, with the world as it is, we are always inclined to let bygones be bygones and allow things to go on as they are. But fortunately, I don't think it is too late even to-day to do justice because we have not been very long on this standard. This 18 pence gold rate was only effective in March or April, 1925. This Commission is listening to my evidence in December, only eight months after. So, if 8 months is considered such a long period that a rate established has got to be borne with—or even 18 months, because most probably your Commission would have to go over to England or America to get further evidence—I would not say that any further arguments should be allowed now to stand in the way of going back to the correct ratio. And may I point out that that was the understanding on which Lord Farrar very emphatically said that he had signed the report of the Herschell Committee. In the Fowler Committee he was put that question and this was his reply: "Undoubtedly Sir D. Barbour intended the gold standard as an essential part of the scheme of 1893 and I think you will find that Lord Welby and I expressed a strong opinion to that effect. I would never have signed the report of 1893 unless I believed it would lead to a gold standard." Then he goes on: "To fix upon a certain ratio is important. But a still more important thing is, when once you have got a ratio, not to change it." Now when we changed over from silver to gold there was no option. Whether that policy was right or wrong is a different thing. But if I had been asked in those days: "We have decided to go to gold instead of silver; now what are you going to do"? I would have said: "The next thing is to fix a ratio, so that the rupee may have a definite gold value." After you have done that, I think it is entirelyunjustified to continually vary that ratio, and the proof of it is that England could have very conveniently varied its own gold contents of a sovereign when the New York rate was a good deal below four dollars. On the contrary,

England decided that if justice was to be done all round, she must go back to the pre-war ratio and she has done so. And every other European country which is solvent has gone back to the pre-war ratio. The only countries which have not done so are those which are insolvent; they have not gone to the pre-war ratio. They have had to devalue. Which really means that when I am very heavily in debt and cannot pay to the last pie, I compromise with my creditors and say: Take 10 per cent. or whatever it is. But that is no proof that variation of ratio is justified.

3882. As you say, several countries have established the pre-war ratio, but nevertheless the change in gold values has effected an enormous alteration in the balance as between debtors and creditors throughout the world?—You mean by the gold value of debts?

3883. Yes?—Well, Sir, that is all the more reason why England and other countries should have changed their ratio and they have not. And I don't think we should do it, because it implies that the gold value of commodities is going to remain high. That was the fundamental mistake of the Babington-Smith Committee.

3884. Let me make it clear. Assuming we changed the gold value of commodities, will it not also effect a very substantial alteration in the position as between debtor and creditor in India?—Well, it will be like this. It would affect the position in a year when, to take an instance, the price of wheat was very high and if a farmer's debt matured in that year, he would escape by selling a small quantity of wheat. On the other hand, if the price were very low, he would suffer. But that is no reason why a contract entered in terms of gold should be varied, because the alteration of the gold value of the commodity is not going to make the creditor accept less gold or more gold. Supposing I had borrowed a thousand rupees and to-day I go and tell that man: Take only 800 rupees because it is going to get you as many commodities as a thousand rupees did a few years ago. He is not going to do that.

3885. Would it not seem to throw some light upon the supposed sanctity of the measure of value when you find that the gold value to which that measure is referred is itself variable?—Well, Sir, to the gentlemen who come from England I need not detail all the controversy that you have had to go through in the last eight months but, although gold is a variable commodity, it has been the drift of authoritative opinion that on the whole if you have to adopt one substance as your medium of payment, then gold has been found much more suitable than anything else. So we have to go on that. To argue about the variation of gold and the necessity of changing prices would lead us into a fruitless controversy. Assuming you fix it at 18 pence, you are not guarding against variation of prices in 1930 or 1935.

3886. I think that is rather a point that might be made in the argument against the sanctity of the 1s. 4d. rate?—Well, Sir, it might be important. It is for you and the other gentlemen on the Commission to consider how far that argument is sound if England has brushed aside that argument after very full consideration.

3887. We are looking back, are we not, on a past which does not show a single change from the 1s. 4d. rate to the present 1s. 6d. rate but a past during which there has been a period of violent fluctuations?—That was the period you mean during the war.

3888. Yes?—And just after the war.

3889. The point that I wanted to ask your view upon is this. In view of those considerable fluctuations in price which have obtained since the war, do they not render any disturbance in contractual relations necessitated by stabilization at 1s. 6d., a very minor one in comparison with the disturbances which have taken place in the immediate past?—Well, Sir, first of all my reply would be that although the fluctuations were supposed to be very wide, they were fluctuations in sterling money, which was not gold at all; and converted into gold, I have tried to point out that for the largest part of the war period also they were as near 16d. as possible. During the post-war period also they were at 16d. and that is an argument for going back to 16 and not for 18d.

3890. There is one question I should like to ask as to the mechanism by which you propose to restore the ratio of 15 to 1 which you outline in the concluding portion of your memorandum. You say that it should be the declared policy of the currency authorities to return to the ratio of 15 by gradual stages. The suggestion which I want to ask your opinion on is this, that once the policy was declared by the currency authorities of returning to the ratio of 15 to 1, it might be impossible to maintain any graduation in the process; it would be immediately anticipated by speculators in exchange, and that would result in a sharp slum in exchange to the ratio of 1s. 4d., which might result in a very great disturbance to trade and industry, reacting upon the people of the country. What is your view upon that possibility?—I will give my views. In 1923—Mr. Aiyar will correct me—exchange about early in March was 1s. 4d. or something like that. It went up about the end of the month to 5¼ and 5½, and suddenly, because Government accepted tenders of Councils at $\frac{1}{16}$ or $\frac{1}{8}$ less than they had before, bankers in Bombay and Calcutta came to the conclusion that Government was trying to go back to 1s. 4d. Suddenly there was a big slump. Speculators and bankers began selling, and the rate was in a couple of days 1s. 4⅛d. Such things have happened even during the last two or three years, so if in trying to go back to the correct ratio such things happen again, that should not be an argument for not doing it. I will now explain to you, Sir, why I think there is no very great danger of that. The balance of trade has been in our favour even during the current year, in the last nine months months, and very heavily; and there is another consideration: the balances of the previous two or three years have also not been thoroughly liquidated on account of this peculiar exchange position. If you compare the visible balance of trade after deducting everything, treasure and Council Bills and remittances and everything, you will find that many crores of rupees remain unaccounted for. It is very difficult to say where those rupees are and where they are now hiding; but it is possible in the present currency position that holders of all that sterling or foreign money would hold on until they come to the next year when some of this is liquidated and that way some of the balance has been carried forward year by year. The point of this remark is that this year we have a heavy visible balance of trade in India's favour. There is most probably a very considerable amount of the balance of trade of India which still remains to be liquidated, and we are now in front of a very busy season. If the Government could make up its mind, something like this would be our position. There would be already an excess of a hundred crores of exports to be looked after for the current 12 months. There would be perhaps 30 or 40 crores of excess of money brought forward from previous seasons and not liquidated immediately. What would happen is that these holders of the proceeds of exports would continue to bring their money in; the new exporters, people who are shipping to-morrow or next month would have to go through somehow and get their goods converted into money; so the position would be very much in favour of a higher rate; so that even if Government announced 1s. 4d. to-morrow, that rate is not likely to come to-morrow. There would be fluctuations, I entirely agree, but at every fluctuation the exporter will come in because he is so heavily in excess of the importer that his balance has got to be adjusted in some way, and in that way the Government will be able to get a control of the position. To-day they are in control of the position simply on account of that; if India's

monsoon failed to-day, it is to my mind clear that Government could not have kept exchange where it is except by trying to sell Reverse Bills in what is called the natural way. So to-day you have this excess which permits the Government to keep a control of all the excess balance of trade which required to be converted into Indian currency, and by keeping control of that or only coming in to convert a small part of it at a time and leaving the market to adjust itself just as it likes, I think the position might be found to be that the fluctuations would not be as sudden and violent as you, Sir, seem to apprehend but comparatively minor ones; and those fluctuations we have been used to for the last five years.

3891. The time has advanced and I will ask you only one further question on this point, possibly in a lighter vein. Under the heading "Relation of the Rupee to the Mohur" in your memorandum (Appendices—page 158) you quote in support of your case an old memorandum of the Treasury. You say: "If on the other hand it is the case that the value of the rupee has fallen in India and that it would be raised in India by the operation of the proposed plan, that plan is open to the objection that it alters every contract and every fixed payment in India." What would you say to a critic who turned your quotation against you thus: "If on the other hand it is the case that the value of the rupee has risen in India and that it would be reduced in India by the operation of Mr. Madon's plan, that plan is open to the objection that it alters every contract and every fixed payment in India"?—I am afraid you have overlooked one point, namely, the volume of contracts that are affected and whether the change has been natural or artificial. Now India's rupee in those days was a silver rupee, it was merely a part of silver. It did not matter what it was worth in terms of sterling. That rupee it was said was a tola of silver and Government wanted to raise it from its real market value of 20d. to 24d. and the Treasury objected because it varied the contracts. The argument emphatically applies to what is being done to-day and has been done in the last two years because we were at 16d. only 12 months ago and we were at 16d. for 25 years, and the contracts which would be violated would be those contracts, while the contracts that you speak of to-day at 18d.? Which are the parties that have made the contracts? I have already pointed out that wages and salaries are still to-day where they were 12 months ago. The only contracts that would be affected would be the contracts of importers, people who have bought goods abroad and have sterling or foreign liabilities to pay. As I have pointed out, exchange is available even for forward deliveries to-day freely, and anyone who wants to cover himself may cover himself; so this argument I think is very emphatically in my favour.

3892. (*Chairman.*) That brings us back to the answers which you have already given on the question of the extent of the adjustment to the present rate. I should like to ask you one further question upon the previous topic of discussion, but before I do so, if there are any subsidiary questions on the rate they should be asked now.

3893. (*Sir Maneckji Dadabhoy.*) May I suggest that this is a very important subject and that there are many members who would like to ask questions at some length. I would probably ask a few questions on this point and if you have no objection and if Mr. Madon will kindly agree, it would be better to have him again to-morrow.

3894. (*Chairman.*) I am afraid we cannot, because we have already made arrangements with other witnesses?——I should be glad if you can relieve me to-day because I feel rather tired.

3895. (*Chairman.*) I must then express on behalf of my colleagues our thanks to you, Mr. Madon, for your most kind and full assistance to-day.

(*The witness withdrew.*)

TWELFTH DAY.

Wednesday, December 9th, 1925.

Present:

The Right Hon. EDWARD HILTON YOUNG, P.C., D.S.O., D.S.C., M.P. (*Chairman*).

Sir Rajendranath Mookerjee, K.C.I.E., K.C.V.O.
Sir Norcot Hastings Yeeles Warren, K.C.I.E.
Sir Reginald Mant, K.C.I.E., C.S.I.
Sir Maneckji Byramji Dadabhoy, K.C.I.E.
Sir Henry Strakosch, K.B.E.
Sir Alexander Robertson Murray, C.B.E.
Sir Purshotamdas Thakurdas, C.I.E., M.B.E., M.L.A.
Professor Jahangir Cooverjee Coyajee.
Mr. William Edward Preston.

Mr. A. V. V. Aiyar, C.I.E., } (*Secretaries*).
Mr. G. H. Baxter, }

Professor C. N. Vakil called and examined.

3896. (*Chairman.*) You are a Master of Economic Science and Professor in the School of Economics and Sociology of the University of Bombay?—Yes.

3897. Have you been long in occupation of that position?—I was for three years on the staff of Wilson College, Bombay, from 1916-19, doing similar work. I am in the University since 1921. This is the fifth year of my service in the University.

3898. You have been good enough to provide us with a very full memorandum* of your views which the Commission has studied with interest. I will ask you a few questions to discover what emphasis you attach relatively to the various recommendations made and to elucidate any points which appear to need elucidation. Let me ask you to refer to that portion of your memorandum headed 'Remedies' (Appendices —pages 179-180) where you arrive at the conclusion 'that no partial changes in the gold exchange standard system as it exists to-day will remove all these defects.' The preliminary questions I want to ask you will be directed towards

* Appendix No. 19.

getting a little deeper into that conclusion by asking you to do this: to take your summary of defects just above and tell us whether or not in your opinion they could be remedied by a perfected and improved exchange standard system. That is an essential preliminary before proceeding to your positive recommendations. Perhaps I may put the questions to you one by one so as to bring out the points which will be of most assistance to the Commission. In the first place, in the course of your historical comments you say that the internal stability was upset through a course of years by the over-issue of silver rupees. Might I ask you on that: It has been suggested to us in evidence that the gradual changes in prices were due not so much to the over-issue of the rupees as to the approximation of Indian prices to the world prices which had previously not been approximate, owing to the general historic position of India as a member of the world's industrial system. What would you say to that?—In the paragraph headed 'stability of internal prices,' I have given a sentence to say that if we compare the level of prices in India during the pre-war years with the level of prices in other gold standard countries like England or the United States of America, we find that our prices, the level of our Indian prices, is higher than the level of prices in gold standard countries and that leads us to the conclusion that in the increase of prices in India some share must have been due to the increase of rupees coined by the Government.

3899. I want to supplement that by putting to you the suggestion that there was in fact a lag in Indian prices behind the prices in those other countries to which you refer, and that what was happening was not an artificial rise in Indian prices owing to the inflation of the currency but that it was due to India gradually coming into closer touch with the outside world, adjusting its prices to those of the world in general?—It is always difficult to find out the exact causes of changes in price levels of different countries and there are usually more than one cause. I am prepared to admit that, and one of the causes may be said to be the adjustment of India's trade conditions with other countries outside during the years say the first 14 or 15 years of this century; but looking at the figures in detail, though I find that this may be said to be one of the causes, I should equally well say that the other cause was the large issue of currency, I mean of rupees.

3900. Taking such index numbers as are available, I find the following changes in prices. Taking 1895 as the base level and 1913 as the year of comparison, comparing India, England and United States, in comparison with a base of 100, the figures for 1913 are India 138, England 137, United States 141. Does that, for what it is worth, not seem to show that there was a rise in Indian prices which was not greater than that in any other country, but that what was taking place was really only a similar and proportional rise in Indian prices?—My contention is that we should see the thing over a series of years. It may be that in a particular year the level of prices in India will be more or less similar.

3901. The period of comparison which I have given is 1895 to 1913. That is, as I understand it, the period to which you are referring?—Yes, pre-war years; that is all right.

3902. Continuing, let me pass on now to your summary of the defects. Taking the first defect, you say: "The expansion and contraction of currency is not automatic, and the management of this function leaves room for grave mistakes on the part of Government." That is a criticism upon which the Commission has already received evidence *in extenso*. Let me ask you whether an exchange standard system might not be devised which would provide for the automatic contraction of currency by the combination of the gold standard reserve and the paper currency reserve into a single reserve, so that the amount of the reserve must rise or fall automatically with the issue of international currency against the receipt of internal currency. Would not that have the effect of making the currency automatically contractible and of remedying this defect?—For that I would take as the basis of discussion the two schemes* which the Commission has been kind enough to send on to me and in scheme No. 1 some improvements are suggested.

3903. The scheme which I have just referred to in order to obtain your opinion on the point is in this memorandum* which you have been good enough to consider. The scheme referred to is the one in paragraph 4, where it is rather singularly described as an "attractive" proposal instead of an "alternative" proposal. Would this alternative proposal in your opinion provide a remedy for the defect in question by effecting an automatic contraction of the currency under given circumstances?—If the practical step suggested in the scheme works smoothly without defect, without undue loss, there is a hope of getting contraction of currency on automatic lines. But in paragraph 2 (H), there is a reference to a separate reserve which the Government will have to maintain for the redemption of rupees.

3904. That is the first alternative. I think it would make it more clear if I were to ask you to confine your attention to the alternative proposal in paragraph 4. There, as I understand it, if I am not taking you too fast, your opinion is that theoretically it is possible to do so?—Yes.

3905. I come to the second part of the paragraph, the management of this function on the part of the Government. As I understand it, that underlies your criticism of the pre-war system, that it was in the hands of the Government, and that it was possible for the Government to manipulate it?—Yes.

3906. Now let me ask you whether, in your opinion, that defect could be remedied by the maintenance of the exchange standard by the transfer of the management and control of the note issue and the reserves against the note issue from the Government of India to a Central Bank. Would that provide an effective remedy for that official interference which you deprecate?—That is the best that you can do under the circumstances, I suppose. The criticism against Government manipulation will certainly be less if the management is in the hands of the bank.

3907. You think that is the best that can be done in an imperfect world?—That is the only thing I can say, I suppose. There is some criticism always if there is any trouble or if any party is affected; but that is the best that can be done under the circumstances.

3908. I will ask you further questions about that when we come to the full gold standard, because I think it is possible that the weight of your evidence may be slightly shifted if you look at it from that point of view. Now taking the second defect, "the absence of a legal obligation on the part of Government to give gold for rupees does not secure the automatic stabilisation of the rupee," could that be remedied under an improved exchange standard system by the acceptance on the part of the currency authority of the legal obligation to give either gold or foreign currencies for rupees?—Yes; it is possible to remove the defect under the scheme proposed.

3909. Under defect (3) you say: "The pre-war system was directed to attain external stability of the rupee, but in doing so the internal stability of the rupee was sacrificed." I think there I must anticipate a little the course of the examination by asking you how and why you would attain greater internal stability with a gold standard, such as that which you outline, than is attainable with an improved exchange standard which would stabilise the external value of the rupee?—Under the proposed gold exchange standard, the issuing of rupees, the additional currency, will still rest with the Government. Under the gold standard scheme suggested, the issue of additional currency will be adjusted from

* Appendix 2.

time to time with reference to the requirements of the people and the general complaint that it is possible sometimes for Government to increase the issue of rupees in relation to the requirements of the people and thereby lead up to an inflation of the currency and consequent rise of prices, that criticism, will go.

3910. But is that so, Professor, with a perfected exchange standard?—But even then the coining of rupees remains with the Government, and there won't be a free silver mint just as under the gold standard there would be a free gold mint.

3911. In what manner do you suggest that the Government could make any artificial issue of internal currency in excess of the actual requirements as indicated by the offer of the international currency?—I presume that if the gold exchange standard on the improved lines suggested continues, the present system of selling Council bills and the existing machinery will also continue. If that is so, in other words, if the Commission will leave it at the discretion of the Government, there is the possibility for an additional issue of currency from time to time.

3912. I am not sure I follow that. We are contemplating a system in which there will be a combination of reserves, a single reserve, and there will be a legal obligation on the currency authorities to buy and sell the internal currency either—(I do not think it is material for our present question to say which)—against gold or against foreign exchange. Under these circumstances, in what manner could the currency authority tamper artificially with the amount of the internal currency?—Well, so far as additions or contractions in the currency take place in the manner suggested by you, Sir, it would be all right; whenever council bills are sold by Government as hitherto there would be corresponding issues of additional currency in the country.

3913. Let us clear that region by making a further assumption, and that is that the remittance business of the Government of India is conducted by the same authority as controls the note issue, say the Central Bank, and that that business is confined to meeting month by month the actual requirements of the Government of India for remittance, and thus that the Government goes out of the exchange market altogether?—If that assumption is made then the objection goes.

3914. Now we come to an important heading, part 4. "The system will break as soon as the price of silver rises to the rupee melting point." I want to put my question in this form. If you maintain the silver content of the rupee at its present amount, in so far as the rupee is concerned, will not any system break as soon as the price of silver rises to the rupee melting point?—What I mean (this is an abbreviated sentence), what I mean is the maintenance of the exchange value of the rupee and the general features of the system will break. Of course, the rupee will be there for circulation, but it will not be possible for the Government to maintain permanently any point at which the rupee will have to be fixed either in sterling or gold.

3915. Let me again anticipate. We may assume, I imagine, that, under your full gold standard, there will still be a very large amount of rupees required in circulation as small change?—Quite so.

3916. What would be the effect upon that volume of rupee currency under the full gold standard as soon as the price of silver rose to the melting point? —If that is so, supposing for the sake of this argument that the full gold standard is established, the position of the rupee will be somewhat similar to the position of the shilling in England. When the rupee is reduced to that subsidiary position when it is a limited legal tender, the danger of the rupee reaching the melting point is less. If the weight and fineness of the rupee is retained, of course, at a certain stage, there will be the danger of the rupees being melted; but when the rupee is made limited legal tender, in order to prevent this happening, it will be perfectly open to the Government to reduce, if necessary, the fineness of the rupee, as was done, if I may say so, in some countries during war-time.

3917. Perfectly; as was done in Great Britain soon after the War. We are assuming a very large circulation of rupees. The rupee, even under these future conditions, will still, I imagine, remain the only familiar coin to the less instructed and the poorer classes of the community?—Generally speaking that is true.

3918. After measures have been taken leading up to the possibility of a debasement of the rupee coinage, what in your opinion will be the effect upon the minds of the uninstructed people of a change in the silver content of the rupee? What will the social and political reactions be?—I do not think there is any apprehension of any serious danger of that nature. In the course of time—if you take, say, 10 years as the scheme here suggests to establish a full gold standard, and if in course of time the rupee does become a subsidiary coin of limited legal tender, though the poorer classes of people may not be rich enough to handle a gold coin for some years to come, they will certainly know that the real unit of currency is the gold coin and the rupee a mere matter of convenience. The importance at present attached to the rupee will automatically disappear as soon as that is known, and when such a system is introduced the Government will no doubt see that there is wide publicity given to the question, and there is no danger of the nature described by you, Sir.

3919. Now we come to No. 5—"the system will also break as soon as sterling reaches gold parity," that is, if the system be a sterling exchange system. Might not that defect be remedied by establishing the system formally as a gold exchange system?—That would be all right theoretically, as was attempted by Government very recently; but most of our transactions are done in sterling, and though we may stabilise the rupee with gold, our daily trade transactions in sterling will be liable to fluctuations.

3920. As long as sterling and gold remain at par no trouble will arise from the practical point of view?—Quite so.

3921. I suppose it may be contemplated that sterling is only likely to leave parity with gold in future in the case of a violent convulsion, or do you think it may occur owing to the failure to maintain parity?—Normally the parity of exchange will be maintained by the British Government.

3922. To guard against the possibility of a convulsion resulting in a separation of sterling and gold, is it not adequate to make some provision, theoretically if you like, by which in addition to undertaking the liability to provide sterling for internal currency, the liability should also be taken in case of need to provide either gold for export or the currencies of other gold standard countries?—That will have to be done if the gold exchange system has to be improved and continued.

3923. Would that not provide an adequate remedy, both theoretical and practical, for any defect in the linking of the Indian currency with sterling?—Theoretically it would provide for the maintenance of the rupee at a fixed ratio; but as a practical remedy, if I may also anticipate, it will involve certain troubles and difficulties which I believe will not be less than the troubles and cost involved in the introduction of a gold standard.

3924. The point I want to make my mind clear about is this. Can the troubles and difficulties which would result in the event of a further separation between gold and sterling be guarded against by the adoption of this or that currency system in India? As you quite rightly told us, the vast bulk of Indian trade is settled in sterling. If sterling separates from gold, can the difficulties and troubles thereby caused to Indian trade be avoided by one system rather than another system of currency here?—If India were on a gold standard, if the unit of our currency were gold, and that standard were maintained, then it would be possible for us to deal with foreign goods and countries on a footing of equality.

3925. Would not that also be the case if India were on a gold exchange standard as distinguished from a sterling exchange standard? You say that, in the event of sterling separating from gold, if India were on a full gold standard it can continue to deal without dislocation of its exchange with other gold countries. Would not that also be the case if India were not on a full gold standard but a gold exchange standard in which the rupee was linked to gold and not to sterling?—Then there would be the objection I mentioned just a little while ago, our ordinary transaction being in sterling, if we base the rupee on gold or sterling currency, there would be the possibility of fluctuations again.

3926. As regards the question of confidence in paragraph 6, the point that I want to ascertain there is this. Your opinion is that, in order to restore general confidence in the value of the currency nnit, it is necessary to have a gold currency, and to make the unit visible gold?—Yes.

3927. From yonr knowledge of the habits and psyohology of the people, might that object be obtained equally, or might it not, if, as the result of a period of the exchange standard, the gold value of the rupee had been so stabilised that people were growing accustomd to finding that the value of their currency, although not actually interchangeable in gold, was nevertheless stable in relation to gold?—That would certainly be some improvement, but I should not say it would be as good as the full gold standard.

3928. Finally, in paragraph 7 you say the management of the money market is not what it might be because the resources of the country are not under one management as with a Central Bank. That is not a matter which is strictly relevant to which currency is adopted, because, acting upon such a scheme as the one we have referred to here, you might equally with an exchange standard as with a full gold standard combine the currency resources and the exchange resources as to their management with the banking reserves?—I quite see that point, Sir.

3929. May I pass on from that little examination of the defects of the present system to a consideration of your own positive proposals. They are very clearly summarised in your paragraph at the end of your memorandum. Let me ask you, in the first place, what is your ultimate ideal of a currency system for India? Do you look upon your full gold standard system as the ultimate ideal, or are you looking forward to a further change when the currency system of India will become a paper note inconvertible internally and convertible only into foreign currency for purposes of international payments?—I do look forward to that second stage of development later in the future when the only legal tender will be gold notes, and arrangements will be made as in England to give gold, to buy and sell gold, for such purposes.

3930. Now to test that opinion, if I may, let me put to you an alternative point of view which has been put to the Commission, that by the natural education of the people in the use of the note the nation is now progressing towards that ultimate ideal which will be attained in the not unduly remote futnre, and if you let things go on as they are at present, you will find owing to the process of education the people of India adopting the note currency, and that that would be promoted by the stabilisation of the rupee, but that it is unnecessary in order to advance it to incur the expense of a full gold standard?—I am sorry I do not agree with that position. The rupee was stable from 1899 to 1914, and the people of the country were certainly accustomed to believe that the rupee was equal to 1s. 4d. Stability was nnderstood. The note circulation had also increased during those years. It is certainly true that during those very years large imports of gold came into the country and could not go into the currency because no gold currency existed; and these gold imports came into the country in spite of the fact that large amounts of gold were diverted by the sale of council bills in England, and all that gold which went into hoards was not used productively for the capital requirements of the people. That is a greater and more extreme waste, I believe, than the expense which will be involved by introducing a gold standard. During those years, 1899-1914, when the rupee was stable and the gold exchange standard seemed to work all right, we were, on the one hand, importing gold in large quantities into the country, and, on the other, we were raising sterling loans in England. If that gold was avalable for currency purposes and the people of the country were accustomed to use gold we would have been to that extent less required to borrow outside or to increase our external debt to a lesser extent than before.

3931. As regards your suggestion in paragraph 4 that foreign capital will be more readily available under a full gold standard system, what foreign capital requires, I suppose, to tempt it is a stable exchange, does it not?—Yes.

3932. To avoid exchange risks?—Yes.

3933. Making that supposition if you will, if that stability of exchange is attained by an exchange standard system, is there any further advantage as regards the attraction of foreign capital which is conferred by a full gold standard?—That is generally true, if the exchange value of the rupee is maintained by an improved gold exchange standard system. The attraction to foreign capital will be there to a great extent; but the first part will not be true; the second part of paragraph 2 will be all right. The first part is that people will learn to use their hoarded gold in a better way; and if I may be permitted to point out, the necessity for foreign capital may not be there if the hoarded gold or the future incoming gold can be used to a greater extent than now, and I believe that was the drift of the speech which the Honourable Sir Basil Blackett recently delivered in Delhi to the students of the Delhi University, where I think he tried to make out the point that we have latent resources in India, resources so great that we can not only supply our own capital requirements, but also make the country able enough to lend to others; and I think at the back of Sir Basil Blackett's mind the idea was that, if I may be permitted to say so, it is the hoard of gold which is not able to come out under the existing system, or the incoming gold which may be hoarded otherwise, which may be thus utilised, and to the extent to which Sir Basil Blackett could not obviously refer to these questions, as they are *sub judice* here, I think his speech was incomplete.

3934. As regards the question of hoarding, your argument proceeds upon the assumption that there is at present a strong inclination to hoard gold?—Yes.

3935. You are of opinion that that habit may be remedied after a period by a growing confidence that the value parted with by the holder can be recovered from the equivalent currency?—Yes.

3936. In fact, it is important, is it not, that that process of the restoration and growth of confidence cau be only a gradual process?—Yes; it will take a few years.

3937. Is it your opinion, or is it not, that the immediate result of making gold thus freely available as you suggest might at first provide means for further hoarding. To put it quite crudely, is there not, in your opinion, a danger that if people want to hoard gold the more you give them the more they will hoard?—I do appreciate the difficnlty that in the very early stages when the introduction of the gold standard is contemplated there may be some difficnlty and there may be some rush on the Government to get gold; but as soon as things settle down and the people are convinced that they are having a gold currency and confidence is restored, I think the tendency will be in the other direction and a better one too.

3938. We observe, then, that the position with which we have to deal is the possibility of an immediate rush for gold, and a further possibility, which

is a more remote possibility, perhaps, that that rush will cease and that not only will there be no rush for gold, but the gold will come back?—Yes.

3939. Now, let me ask you a preliminary question. You recommend that these steps should be taken at once?—I have said somewhere in the body of the evidence that these steps will have to be worked out by certain stages.

3940. I want to see what the stages are. Should these stages come at once or after a period? The coinage of rupees should be stopped and the demands for additional currency should be met by the issue of gold coins and notes?—I think that should be done as soon as possible.

3941. What would that possibility be dependent upon?—Upon the gold resources at the disposal of the Government.

3942. Are you contemplating here a legal obligation to meet demands for additional currency by the issue of gold coins and notes?—That legal obligation will have to be undertaken; it may not be undertaken in the early stages.

3943. I understand that what is in your contemplation here is that gold should be imported by the normal methods, that it should be presented to Government, and that it should either go into ordinary circulation after being minted as mohurs or that gold notes should be issued against it?—Quite so.

3944. Leaving No. 3 of your summary for the present, you say in No. 4 "that the Government should undertake, through the Imperial Bank, to buy and sell gold at rates approximately equal to the par of exchange, as is done by the Bank of England." That also, I understand, is the first step?—That is the first step laid down in the scheme suggested.

3945. Let me see exactly what you mean here. Do you propose any limitations upon the acceptance of the obligation to, shall we say, sell gold at or above the lower gold point, or do you mean that any amount of gold should be sold at that rate for any purpose?—I have said in the body of the written evidence that the gold may be bought in any quantities, large or small; but that the sales of gold should be limited to certain large quantities, as in England, say, 400 ounces.

3946. So that it is contemplated here that in fact gold should be sold only for export?—Not necessarily; I have simply copied the English system in suggesting this, and I do not think it is necessary to restrict.

3947. You do not propose any limitations to ensure that the gold sold is exported?—No restriction is necessary.

3948. What would be the consequence of that? You accept an obligation to sell gold, with the only limitation that there is to be a minimum quantity, shall we say, of 400 ounces; and at the same time it is generally known in the country that this is the first step in a process of currency reform which is to lead to the ultimate dethronement of the rupee?—Yes.

3949. Might it not be natural to expect that the consequence of that would be that there would be a very great demand for gold to replace silver hoards in the country?—There will certainly be some rupees presented to Government for conversion into gold in this manner. Now, the only general statement that can be laid down in this connection is this, that we have a very large country with a very large population, and the masses of the people, of course, will use rupees to a very large extent, and therefore the number of rupees which are in excess of the daily requirements of the people will be presented for such conversion.

3950. The number of rupees in excess of the daily requirements of the people; that is another way of saying the rupees which are in hoards, is it not?—It is right to say so, I suppose.

3951. That is what one is thinking of, the rupees which are laid up and are not actually needed for currency purposes. Have you been able to form any estimate of the extent to which rupees might be returned under such conditions as those, when the country sees that the rupee in the course of time is to cease to be legal tender?—I have said in the body of the evidence that it is always difficult to make such estimates; but if you take the population in round figures as 30 crores of people, and the largest estimate I have seen of rupees in circulation and in hoards as about 300 crores, that gives you Rs. 10 per head of the population.

3952. 300 crores, you mean, in active circulation?—In circulation and in hoards. I was looking the other day at the total number of rupees coined since 1835—it is about 600 crores in round numbers, or a little over. And I do think some rupees have gone out of existence by melting or exporting before the rupee became a token and by wear and tear and the estimate of 300 crores may be taken to be approximately correct for our purposes. If we have, therefore, Rs. 10 per head of population in this country, and consider the daily requirements of the people, I wonder if at the most optimistic calculation we could say that even one-third of the rupees will come back.

3953. That will be 100 crores?—That is the maximum.

3954. Let us assume that figure, that the amount of rupees that come back for substitution by gold is 100 crores. What do you think about the time at which it would come back? I know it is easy to say, as it were, that you can make provision for carrying on the operation by stages. But would you consider this—that the offer of gold for rupees comes at the same time as the announcement that ultimately the value of silver in large quantities is to be affected by the limitation of the legal tender. Under those conditions, do you or do you not think it probable that the greater amount of this 100 crores would come in pretty quickly?—I don't think so, Sir. I mean the stages which are suggested here for the gold standard scheme, the scheme given to me, those stages contemplate a legal obligation on the part of Government to give gold almost in the third stage which will be about five years after the scheme is launched. So that till then difficulties will not be so great and the conversion of rupees into gold will certainly be spread over a series of years.

3955. Have we not got to consider that Government may refuse to undertake more than a gradual increase by stages of its legal liability to take in silver against the gold given out? Is not the open market always open to the holders of silver hoards in case of a real alarm on their part, and might it not be that the silver hoards would be thrown upon the open market for gold bullion?—In actual operation I think the intermediaries for these transactions will be the bullion dealers. Even if the Government announces its intention to-day to buy and sell gold as is suggested here, I do not think the man in the street will be in a position to present gold in sufficient quantities to the Government and it will certainly be through the bullion dealers who may take rupees and give out gold in smaller quantities and ultimately give rupees for conversion to the Government. That will be the normal procedure certainly, I suppose.

3956. Then let me put another consideration to you. Even supposing you are confident that the demand for the substitution of hoards by gold will be a gradual one, nevertheless, in view of the considerations which we have just taken into account, is it not necessary to contemplate that, at worst, you might have the whole of this increased demand for gold and this increased supply of silver relying upon the markets in these metals within a comparatively short period; and when one is contemplating possibilities fraught with so much consequence, is it not right for a responsible Government to make provision against the worst that may occur

and not to count upon things going too favourably?—I quite understand the difficulty, Sir. But so far, if silver has to be demonetised, the rupee practically becomes a subsidiary coin, and the fall in the price of silver will not affect us very greatly.

3957. We will consider tho question of the silver prices in a moment. To lead up to that question, as soon as you decide upon introducing this system and limiting the legal tender of the rupee, reducing it to the position of subsidiary cash, the Government holdings of silver in the reserve become depreciated; in fact, they become no longer of use?—In a sense quite true. But they can be used by converting them into gold.

3958. That is the only practical use that can be made of them. So that, in addition to the hundred crores of rupees that come in from hoards, we have to take into account the ninety crores of silver and rupees which the Government holds in its reserves?—Yes, Sir.

3959. That is the measure of the amount which will have to be liquidated on the silver market?—Yes, Sir.

3960. Now, I want to consider first of all the effect upon the gold market of the additional demand for gold and the effect upon the silver market of the additional supply of silver. Have you been able to make any estimate of the amount of gold which will be required from first to last by the working out of your scheme?—I have not made any estimate, I think.

3961. We know what the Government has now; and then we have to supplement that with the estimate of the extra amount it will require?—I have not tried to work out an estimate here. In the existing reserves there is about 33 crores at 1s. 4d. and I have tried to lay down general proportions to show that certain large quantities of gold will be available to the Government; firstly by melting the silver worth about 190 crores, which we just estimated, and if necessary by the sale of British securities.

3962. These are the methods by which the gold can be paid for?—In which it can be acquired.

3963. What we are trying to get at here is how much gold it is prudent to provide for in order to put the scheme of gold coinage as outlined in your proposals on to its legs?—Certainly another very difficult thing to estimate. But I would hazard a guess on these lines. Supposing as we just started, that 100 crores of rupees come back and for that, gold has to be given by the Government—100 crores worth of gold may have to be provided by the Government, plus any additional annual demands for currency.

3964. Plus the gold that goes into circulation?—And there may be some economy on the other hand if gold notes are taken. I mean the maximum demand for gold will be 100 crores of rupees which will be displaced by gold according to our estimate plus any normal additional requirements. That is the actual gold required as we started. But the actual amount of gold will be less if the Government succeeds in introducing notes into the circulation at the same time.

3965. With reference to the question of gold in circulation, there is a question which I should have asked you before; let me ask it now. What do you think the effect upon the note circulation would be of the introduction of a gold currency? Do you or do you not think that the result of making gold available for currency would be to drive notes out of circulation?—The scheme, as I have suggested here, contemplates the issue of gold notes as well as gold coins (paragraph 10, Summary of Recommendations), and I say in paragraph 8 that rupee notes of the denomination of ten and five may circulate. So that the rupee notes of smaller denominations only may circulate as substitutes for rupees limited legal tender. Whereas full legal tender notes will be those of gold only which may mean that the existing larger denominations of rupee notes will have to be substituted by gold notes of equivalent value.

3966. I follow that you would provide this additional form of currency, but the point to which I would like to direct your attention is, if and when you give people what, by your hypothesis, is to them the most desirable form of currency, that is gold, will that not lead to their preferring gold for their currency purposes and to their rejecting to some extent notes and thus lead to a reduction of the proportion of the note issue?—I should think on these lines—that even though the people have lost confidence in the existing rupee circulation, still the existing circulation of rupee notes is about 180 crores or more. The people of the country have been accustomed to handle currency notes to this extent in spite of the fact that they know that what they get in exchange are token rupees of fluctuating value. When, however, in future, if this scheme is successfully launched, the people come to realise that the gold notes that they handle are substitutes for real gold which they can get on demand, I do believe that there will be a greater tendency for gold notes to become more popular than the existing rupee notes that we have now.

3967. But there again we are looking forward to the result of a process of education?—Quite so, Sir.

3968. And we are recognising that there will be an initial period during which the reverse effect will make itself felt?—For that we started on the hypothesis that a large number of rupees out of the 300 crores existing—say 200 crores—will still remain and the rupees converted will be those that are in excess. Or it may be that the rupees converted will be by those people in the larger cities, the commercial people and the more educated people who will understand the use of gold and gold notes.

3969. To return to our examination of the manner in which your proposal would work that effect. I want to see, first of all, the effect of the increased requirement of gold. We must take some figure as the basis of discussion, and I think it would be convenient, with a view to the Commission's previous inquiries, if we were to assume that the amount of the additional gold required from first to last to introduce these proposals would be in the nature of 100 million sterling or 130 crores at the present rate. Assuming, if you will for the sake of our argument, that these new uses of gold would require an additional supply for India of 130 crores of gold metal in some form or another, what, in your opinion, would be the effect of that upon world gold prices?—Even apart from such a demand for gold on the part of India, normally India has been importing large quantities of gold.

3970. Let us be quite clear that it is in addition to the normal absorption of gold which is going on at present?—I should say, Sir, that some of the normal inflow of gold into the country or perhaps the greater portion of it will be available or presented to the Government for purposes of coinage. These things will be overlapping. At present the gold which comes into the country is either turned into ornaments or hoarded because it is not possible to use them for currency. As soon as it is known that the currency use of such gold is possible, the ordinary normal imports of gold will certainly be presented to the Government at the mints for purposes of coinage.

3971. Is that quite consistent with what you tell us? You tell us that you do not expect the educative effect of the introduction of the gold standard to be immediate but that you look to a period of transition during which it might well be that the result of the introduction of gold currency would be actually to increase the requirements of the people for ornaments and hoards. If that be so, if you are right in that expectation, will it not be prudent to expect that the present normal demand for gold, for whatever purposes it is used, not currency, would at first be diminished?—I should put it this way, that the demand for the conversion of rupees into gold, of rupees which are scattered all over the country in small quantities, in the hoards or pockets

of various small people, will be presented somehow in course of time for conversion into gold to the extent of 100 crores. The gold which comes into the market for those 100 crores, those poorer classes of people will get in return even if they want to hoard it. But the gold which comes into the country from year to year is in the first place imported by exchange Banks or bullion dealers or by the Government in some cases, and it goes to commercial men who will be more intelligent on the spot in cities like Bombay and will understand the uses of it. On the one hand, the hoarding requirements if there be any will be satisfied by one procedure and the imported gold will be possible to be used in this manner, and I do not think there is any inconsistency in my position.

3972. Your present contention is that the figure for the gold would be reduced in that manner. Nevertheless, agreeing that it is some large figure as to the further requirements of India for gold, would you care to express any opinion as to what effect on the gold prices of the world at large a demand of the magnitude to which I have referred would have?—In tho first place I would start with the remark that even if you say that a large demand for 100 crores of gold will be there, it will not be in any one particular year. The detailed stages which are suggested here tell us that it will be about 5 or 10 yoars; and if tho demand of 100 crores worth of gold is spread over about 10 years, the effect on the gold prices in the world cannot be appreciably great.

3973. At the same time you are taking into consideration no doubt the actual probabilities as regards the future quantities of production of gold in tho world?—Yes.

3974. Aro they in your opinion likely to increase or decrease?—The world demand for gold with reference to its production is less. In the footnote to the Section headed "Effect on Gold and Silver Markets" (Appendices, page 183) I have quoted tho opinion of Professor Cannan. That is a very rocent statement. I have forgotten to give the date but it is 1923.

3975. To which words are you referring at the moment?—The last paragraph: "Thus on the whole there is reason to fear a fall in the value of gold and a rise of general prices rather than the contrary."

3976. You, therefore, are of opinion that, if this demand can be distributed over 10 years, there may be some effect on gold prices. Would you say that there is no importance to be attached to that at all? —There may be some effect on the gold prices but nothing of a serious character of which we need be afraid.

3977. If, on the other hand, those worse possibilities to which I have referred were to occur and the demand were to be concentrated in a very much shorter period, what would your opinion be as to the possible effects of that state of affairs?—If such an emergency did arise—I am assuming it theoretically, I do not believe in the possibility—there would certainly be a greater effect on prices than otherwise and the gold prices would be affected, certainly.

3978. And any other serious disturbances of this sort, I imagine, you would consider to be a matter to be taken into grave consideration from the point of view of the interest of India herself?—I look at it from the other point of view. On the introduction of any sound system of currency for any country whatsoever, there will always be some troubles and some cost in introducing it because it will be somewhat of an experimental nature; it will be difficult to prophesy what is going to happen, and some risk will have to be taken if we want a sound currency system, and I for one am prepared to take the risk of the emergency which you point out, in view moreover of the fact that the world demand for gold with reference to the supply is not great.

3979. You outline the manner in which you propose to attract this additional gold that is required. It is based upon borrowing?—Borrowing is the ultimate stage.

3980. If you work out the intermediate stages, in fact you are borrowing credits against which you draw gold, though it does not appear like that on the surface. If you get the thing down to what is actually happening under the method you propose, you are borrowing credits in a gold centre against which in one form or another you are drawing gold to the country, and if you did not get those credits, you could not force the extra import of gold?—Quite so.

3981. Now I want to clear up what you say here as regards the effect on the gold and silver markets (Appendices, page 183). You say: "India has every right to reform her currency, and the other countries are strong enough to manage their own affairs if they are adversely affected by the action of this country"; and, further on, "if now India asserts her right to have gold for the precious exports which she sends abroad, it is nobody's business to interfere." One might entirely agree with those sentiments and yet find there was another aspect to be considered. Will you assume with me for the moment that other countries might make up their minds that they did not want to part with gold to India. That is what you are really contemplating here?—I am prepared to make that assumption.

3982. They might say, we do not see why we should part with gold, which gives us various advantages in exercising power in the money markets, in order to let India have a gold currency. If that was so, supposing they took that attitude, granting that it might be quite unreasonable, nevertheless how could India enforce her demand against their reluctance, since, if I may point out the point of my question, we have already agreed that her capacity to draw gold to this country must depend upon her obtaining credits at a foreign centre?—The first step would be duo to tho excess of exports. We are getting gold of course for our excess of exports; and in the last alternative, if the excess of exports is not adequate, I think I said that borrowing or external credits would bo the last alternative.

3983. You will agree with me that your method of drawing gold to this country is ultimately based upon your obtaining additional credits in excess of the total exports of the country; otherwise there is no point in it?—If we come to the last stage when that becomes necessary, it will certainly have to be resorted to.

3984. What I want to ascertain from you is, making these assumptions, supposing that there is a reluctance on the part of the possessors of the world's gold to let India have it, how could India force it when her capacity to get it depends on her being able to raise additional credits?—If that last stage has to be resorted to, there is no question of force on the part of India: it will be a question of diplomatic negotiations. During the war period, for example, we got large amounts of silver from America by negotiations; and it would certainly be possible by arrangements with the big holders of gold, the Bank of England or the Federal Reserve Board, to give us the necessary "credits." A system of negotiations or friendly arrangements by which the gold may come to us may be divided and I do not think that is impossible.

3985. That is rejecting my assumption that the Federal Reserve Board is unwilling to let you have gold. You cannot conceal from the Board that these credits are required for the purpose of increasing India's gold supply. If she made up her mind that she did not want to give you that gold, there is no method of compelling her to give credits?—There is no method by which you could compel any foreign power.

3986. Turning then to the topic raised by you, one may be really dealing with practical difficulties and not merely with the assertion of a right. You may be prepared to assert your right, but nevertheless one might be up against a practical impossibility?—I think the subsequent paragraph if read

along with the preceding paragraph will make the point clear. There I point out: "Proposals for the establishment of a gold standard with a gold currency in India were made on several occasions before this," since 1864, from various authoritative sources and on many an occasion. Somehow those proposals were turned out because there were certain vested interests. It is that historical complaint which I am making in the second paragraph that it was not right for those who were in power then not to part with their gold as they did in the past, and their attitude was as unreasonable as that of the Federal Reserve Board would be under the supposition you are making just now.

3987. That is a question on the merits; my last two questions were really, assuming the merits, what means there were of enforcing them?—We have no means of enforcing it; the only means are negotiation. That is perfectly clear.

3988. Now to complete the picture, what in your opinion would be the effect upon the silver market? The figures are these. There is the 100 crores coming back from the outstanding rupees and there is the 90 crores in the reserve, so that we are dealing with something of the order of about 200 crores of silver. That comes on to the silver market. Might that also be increased in your opinion or not by the selling of silver held as stores of value in the form not of rupees but of ornaments or other forms of treasure?—It will not be very great; it may be a little; it may be increased to a very slight extent.

3989. We must reckon upon the possibility of some increase but not, in your opinion, a great increase?—Yes.

3990. Passing then to our ascertained figure of 200 crores, what is your proposal? How would you propose to deal with the 200 crores of silver which will be liquidated?—It will have to be melted and sold over a series of years. In the paragraph headed "Sale of Silver" (Appendices, page 183), I suggest how the sale of silver will involve the Government in a loss; first because the rupees are tokens and second because it may have a depressing effect on the silver markets. The first loss is quite definite and obvious.

3991. Have you been able to estimate at all how much on an average will be realised by the sale of this silver?—If the sale of these large stocks of silver is spread out over the transition period, say ten years with which we start, it would mean about 20 crores a year.

3992. For the purposes of your calculation, have you made any rough approximation as to what you think would be realised by this silver?—I have not made a calculation; but I am prepared to hazard a guess. The present price is about 33 pence per ounce. If the 20 crores of rupees are melted into silver, it would be less because it is a token coin. Really we will be putting on the market silver worth 12 or 13 crores at the most. Now if the 20 crores worth of rupees are melted, the silver bullion would be much less. I am giving the figures approximately. Now if you put that amount of silver on the market you will get only 12 or 13 crores. The depressing effect on the silver market need not be very great. It may be to a certain extent, of course. We shall be realising instead of 33, 30 or 28d.

3993. You say it will not be very great? If my memory serves me rightly, the actual amount of silver bullion which you will be selling is three times the total world sale in one year?—That would be the total sale, not in one year.

3994. You will be selling three times the total production for one year. Realising that one has to deal with an amount of that magnitude, do you think it is safe to assume that the effect upon the silver market would be slight, when you are selling three years' production?—The loss in selling the silver is there in any case. But the question is how to minimise the loss.

3995. You are considering what the effect upon the ruling price of silver would be?—In selling the silver, Government may be given discretion and full discretion with reference to the condition of the silver market from time to time over these series of years and I think the loss can be minimised.

3996. The longer they hold and the longer they spread the sale, the more they are losing by keeping idle a thing of value?—That may be considered to be one of the items in the cost of introducing gold standard and gold currency.

3997. Are you prepared to express any opinion as to what effect this would have upon the silver markets of the world?—I am prepared to say generally that the effect will be there; but it will not be of a very serious character. I am not certainly well conversant with the silver markets to say what it would be exactly.

3998. That requires a very intimate knowledge of a very specialised market, does it not?—Yes.

3999. Let me turn now to the cost of this scheme. Have you made any investigation as to what the cost of introducing your scheme, first and last, would be?—The first item, as I have just hinted, would be the loss on the sale of silver. If you have to melt and sell so much silver, which is nominally worth 200 crores, and if we have some substantial loss, that will be the first important loss. The second big item would be the external credit, so much additional debt and the consequent interest charges. The third item may be what you just now suggested, namely, the loss of interest on the holding of large stocks of silver, locking them and not investing them or not being able to invest them. It is very difficult to give exact figures for one in my position.

4000. I wonder if you could expand your answer a little as to what the actual loss would be. I am considering now the loss in the accounts of the Government of India on the introduction of this scheme. Do you mean that you would take the difference between the token value and the bullion value of the rupee as a dead loss to the Government?—In the Government accounts they have 200 crores of rupees, roughly. If they are to be melted and sold and they get some loss, that will have to be written off. As against this, of course, the Government has got the gold standard reserve which has been built out of the coinage of rupees.

4001. And the further elements?—They are the external credit and the consequent interest charges.

4002. As a result of this method of calculating the cost, have you been able to arrive at an estimate as to what the scheme would cost?—I am sorry I was not able to make exact estimates.

4003. The cost of any scheme is a very material consideration, is it not, as to whether it is desirable and to be recommended?—I quite appreciate that contention, Sir. My position has been that the general lines which I have suggested might be adopted.

4004. You would not go so far as to say that such a change would be worth making at any cost?—I do not say that. I have tried to suggest a balance of advantages, and I have laid down that there would be some cost; but it will be within manageable limits.

4005. Let me put it to you in this way, what will be the utmost you will be prepared to pay for the introduction of a full gold standard?—Even if our public debt increases by 50 crores of rupees or even a little more, I do not think it would be a serious matter.

4006. The public debt would be increased by 50 crores; that is, a capital increase?—Yes, there would be an annual recurring charge of a few crores of rupees on account of loss of interest.

4007. A few crores?—I am assuming it will be about 2 or 3 crores.

4008. A capital increase of 50 crores would mean an annual charge of about 2½ crores, and then you are contemplating some other charge which you spoke of as 2 or 3 crores?—I included in the annual charge the interest on the capital debt.

4009. So that you mean that your answer to the more general question is that you are prepared to pay 2 to 3 crores?—Yes.

4010. And you think the country would get value for the money?—More than the value.

4011. It will be more than worth while to get this gold currency at that cost?—Yes.

4012. The concluding questions I have to ask are as to the ratio at which you think it is desirable to fix the rupee. Here I have some little difficulty in apprehending the proposal. You recommend, in the first place, the minting and the circulation as a gold coin of the mohur, a mohur to be equal in weight and fineness to the sovereign. I should ask you on this point what you consider to be the advantages of the mohur as against the sovereign for the purposes of circulation?—The only difficulty with reference to the sovereign which I have pointed out is that of minting it in India. There have been difficulties in the past in connection with the minting of sovereigns.

4013. The minting of a sovereign in India requires the presence of a branch of the Royal Mint. Are you of opinion that that is an unworkable arrangement or one that is likely to cause difficulties?—I can only look back to the history. When proposals were made in the past, in 1900 for instituting a gold mint and for minting the sovereign as recommended by the Fowler Committee, difficulties raised by the Royal Mint or the Treasury, whichever it is I don't remember, came in the way.

4014. A branch of the Royal Mint was actually in operation in Bombay?—Yes, temporarily during the war.

4015. Supposing it to be the case that it was worked smoothly and without friction, what would be your objection?—I would modify it in this way. When in 1918 the coinage of gold on account of war conditions was thought necessary, perhaps Government approached the authorities in England to constitute an Indian mint as a branch of the Royal Mint. But I believe negotiations were delayed or took more time than required. It was an emergency situation here, and the Government had to coin the mohur before the necessary sanction was got and mohurs in large quantities were coined. Subsequently the sanction was received and the sovereigns were coined.

4016. Those difficulties to which you refer relate to the difficulty of getting the mint started. Once a branch of the Royal Mint is started here, do you then look upon it as an arrangement which is likely to cause recurring difficulties?—It will depend upon the nature of the arrangement between the two authorities. If the Indian mint is more or less independent for its own purpose and if the mutual arrangement between the Indian and English authorities there is a possibility of smooth working, then there is no objection in principle to having a sovereign.

4017. That is the negative disadvantage of the sovereign. What are the positive advantages in favour of the gold mohur? Will you direct your mind in replying to that question to the possibility of the gold mohur not being so widely known or relied upon as the sovereign which is familiar, particularly in the Punjab and elsewhere?—I should believe that both the coins, mohur and the sovereign, are familiar. Before the sovereign was thought of in 1899 and before it was declared legal tender in our country, mohurs were coined and were in existence till 1893, when the mints were closed to the free coinage of silver and they were also by the same Act closed to the free coinage of gold. But till then the Indian mints were coining gold and gold mohurs freely, though gold coins were not legal tender in the country, so that the people are accustomed to the gold mohur even as they are in recent years accustomed to the sovereign. The only objection is that of minting. It may be that in some parts a particular coin is more familiar than the other; but if they are of the same weight and fineness, I do not think there will be any difficulty.

4018. The mohur might be familiar in historic times; but was it not changed in recent times?—In 1918, when gold coins were coined, the number of mohurs coined were larger than the number of sovereigns coined. In 1918, during that temporary war measure, the public did not have many opportunities of acquainting themselves with any of those gold coins. From what I remember of the history of the period, I think their career was a very brief one.

4019. Now coming to the question of ratio, you recommend the adoption of a ratio of 15, that is what is commonly called the 1s. 4d. rupee, though you would not prefer that phrase with reference to your standard. Will you please explain what precisely you contemplate. Under the heading "Rate of Internal Exchange" (Appendices, page 184) you say, "Besides it is not likely to do any harm which the opponents of this ratio may point out, because the supposed harm is with reference to the external value of the rupee, which is no longer required to be considered." By fixing formally the stable value of the rupee as one-fifteenth of a mohur, which is equivalent to a sovereign, does one eliminate all the consequences of a change in the gold value of the rupee from its present estimation of 1s. 6d.?—When this would be in operation, when the full gold standard has been established, if you take the analogy of England, the rupee, when it is declared a limited legal tender, will have a position similar to that of the shilling in England. The shilling is rated for internal purposes with the sovereign or sterling as one-twentieth and the people of England have been accustomed to it. It is a mere matter of convenience to rate the subsidiary token coin with the unit of currency at any convenient ratio. It is a matter of convenience more than of principle.

4020. This is perhaps an immaterial point that I am going to refer to now. That is so, no doubt, but it will be many a long day before prices and rates of exchange are quoted in mohurs?—I should think on the other hand as soon as it is announced that the gold standard is decided upon and definite stages are being worked out, the commercial public and the exchange banks who deal in this business will of course turn their calculations in the right direction.

4021. The relevant point here is that the gold value of the rupee at present stands at the 1s. 6d. rate. You propose that the gold value of the rupee should be changed to the 1s. 4d. rate?—Yes, Sir.

4022. That involves, does it not, certain readjustments?—During the transition period?

4023. Yes?—The rupee so long as it is not declared limited legal tender, in other words, so long as it is unlimited, the market rate will have to be respected. It will be very difficult, it will involve another process if the rate has to be changed. On the one hand during the stages of the introduction of the gold standard, there will be one set of difficulties for Government. On the other hand, the rupee will have to be left as it is for some time. But as soon as it is declared limited legal tender, it loses that importance for external purposes.

4024. What is your view regarding the immediate future? I understand that the situation is to be dealt with at once by the Government undertaking, through the Imperial Bank, to buy and sell gold according to the par of exchange. What in your recommendation is the par of exchange which should be adopted forthwith? Are you in favour of retaining the present market rate of the 18 penny rupee or taking steps to readjust matters so that the rupee should stand at the rate of 1s. 4d.?—In the introduction of the gold standard during the early stage on the one hand if efforts are made to reduce the rate to 1s. 4d. it may defeat the purpose of the gold standard. . If the rupee is to be reduced to 1s. 4d. it will involve some additions to the currency and the gold standard measures will be fighting against the volume of rupee currency. One should not therefore expect to see rupee currency rising in volume at the time when we want to reduce it. From that point of view I would let alone the 1s. 6d. ratio as it is, provided these measures are right away started.

4025. But would you not take any immediate measures to alter the rate of the rupee?—No, Sir.

4026. Then I do not quite follow why you recommend that ultimately it should be fixed at 15 to 1. Supposing the rupee went on as it is, successfully stabilised by the operation of the machinery to which you refer here, its value is kept stable at 18 pence. How would you eventually effect the transition from the 13 and one-third ratio to the 15 ratio?—The only argument in favour of the 1s. 4d. ratio is that it is popular because the people are accustomed to it. There is no objection in principle to having any ratio either 2s. or 1s. 8d. as soon as the rupee becomes limited legal tender.

4027. Supposing when you finally take the step to which you refer of limiting the rupee as legal tender, you limit the rupee as legal tender, and, after giving rupees against gold, supposing then the happy state of affairs still continues which you are contemplating, that is, a stable rupee at 1s. 4d. continues up to that point, you would then take steps to adjust the ratio from 1s. 6d. to 1s. 4d., because we must recognise that it will not get there of its own accord, if the stabilisation scheme is effected. Let me put my question to you in a shorter way. Supposing that the rupee continues stable at 18 pence until the time comes for the limitation of the rupee as legal tender, would you then at that period fix the number of rupees in the sovereign or mohur at 15?—In principle I start with the proposition, if I may repeat it again, that there is no objection to fixing the rupee when it is limited legal tender at any rate, and therefore if the 1s. 6d. rate is familiar, if the people have got themselves accustomed to the 1s. 6d. rate after the successful introduction of the gold standard and the stage has arrived when the rupee is made limited legal tender, I do not object to the ratio being 1s. 6d. or any other.

4028. I think the immediate consideration for the information of the Commission is that you do not immediately propose taking any steps to effect, by additions to the currency or otherwise, an alteration in the present current rate?—On the supposition that the gold standard is being introduced.

4029. On the supposition that an exchange standard is continued, to explore your opinions in all their alternatives what would you say then as to the rate?—In that case under an exchange standard the external value of the rupee will have an important place in our consideration and the imports and exports of the country will be affected and prices will be affected by either rate.

4030. What conclusion would you draw from that?—My conclusion is that we should revert to the 1s. 4d. rate.

4031. Let us examine that position and ascertain what your contentions are there. On what principal grounds do you base the desire for a 1s. 4d. rate in contrast with the 1s. 6d. rate under those conditions?—The main ground is that we are more an exporting country than an importing country. The volume of exports being larger than the volume of imports, with the 1s. 4d. ratio the people of the country are likely to be at an advantage.

4032. Is it your opinion that the export trade is permanently benefited by a lower absolute rate of exchange than by a higher rate?—I was going to support that position by a second position. If the gold exchange standard is to be maintained at particular rates, the rupee stabilised at a particular rate, then in addition to the advantage to the export trade the question of the Government being able to maintain the rupee at a particular point is also to be considered. In a country like ours——

4033. Just before we go on to that, I rather gathered from your previous answer it was your opinion that a stable 1s. 4d. rate would permanently benefit the export trade more than a stable 1s. 6d. rate?—Yes, generally speaking.

4034. That is your opinion. Now let us pass to the answer I am afraid I interrupted you in giving just now?—In a country like ours where there is a possibility of famines, when we have scarcity and famine, our normal exports will be affected, and it is during these times of an adverse balance of trade that the Government has to use its resources to maintain the exchange value of the rupee. If the rate is fixed up at a high rate, 1s. 6d., higher than the pre-war normal rate, then the difficulties of maintaining the rupee are greater than the difficulties in the other case. In times of adverse balances you will agree, Sir, that the tendency will be for the rate further to be depressed, to go down, and if the rate of exchange is fixed at a higher level, the resources which the Government of India will have to employ to maintain the exchange will be greater than with the rate at 1s. 4d. So from the practical point of view of the Government's own resources the Government themselves being able to maintain a rate under the gold exchange standard system, I should prefer the 1s. 4d. rate.

4035. To summarise that reply, I understand it is further your opinion that, as between two stable rates, the Government of India will find it easier to maintain a lower stable rate rather than a higher one?—Yes.

4036. By what measures would you secure the reduction of the rate from 1s. 6d. to 1s. 4d.?—Under the gold exchange standard?

4037. Yes, all our questions are now proceeding on that assumption?—I have necessarily to differentiate between the two because I believe in the other system. The only method to-day is to increase the volume of currency in a suitable manner.

4038. What reactions would the increase in the volume of the currency, which will no doubt make its effect felt upon prices, have upon the trade and industry and upon the people of the country at large, taking them in their relevant aspect in this connection as debtor and as creditor?—The first effect will be that the prices will rise to that extent, to the extent that the Government succeeds in reverting to the 1s. 4d. rate; but as I stated in the beginning a somewhat higher level of prices is beneficial to the country, we being interested more in large volumes of exports than imports. Imports will be dearer to that extent, but we shall be benefiting the exports of the country, and our exports are mostly raw materials and food-stuffs, agricultural products; and our population which is also mainly agricultural will therefore be benefited. On the whole, therefore, the greater proportion of the population will stand to gain by the 1s. 4d. ratio in spite of the fact that there will be some amount of increase in prices.

4039. Very crudely put, the increase in prices may benefit sellers but it must be to the detriment of buyers?—Quite so.

4040. What makes you prefer the benefit to the seller rather than the detriment to the buyer?—There is one feature of our economic life which I may point out. Let us take the large masses of the people in the interior, in the villages and districts. Even if an agriculturist is growing, say a thing like cotton which he necessarily is interested in selling, as a rule we find the same agriculturist in some other fields or in some part of his holding growing some food-stuffs just enough at least for his own maintenance and his family; and we find therefore in the large majority of cases food-stuffs and other materials of immediate necessity and the daily requirements are grown by the agriculturists on their own fields for their own consumption and not for buying and selling. If there is a surplus of course they would sell it, but not otherwise; so that the higher level of prices which would come into existence will not affect these parties; in other words I mean the large mass of the people are more interested in selling their goods than in buying; and as sellers of course they will benefit.

4041. Let us recognise of course that there is a primitive community, if you can imagine a perfectly primitive household that produces the whole of what it needs on its own farm?—I did not say that this was so in a particular case; it is there in very many cases.

4042. I just want to analyse that a little. In the first place you can consider a perfectly primitive

household that produces the whole of its own requirements from its own farm. That, in its happy state of nature, is not affected by prices at all?—Yes.

4043. Then you have the other community in which part of the produce is sold and money is received for what is sold. That money represents the value, which is used again in the purchase of something else. What permanent difference does it make to such a household when prices rise or fall, since adjustments have taken place, if we consider that, although it gets more or less for what it sells, in proportion it can buy more or less?—If we had such a state of affairs when all the millions of households in this country, agriculturists, chiefly, were in that category which economists would call money economy in its ordinary sense, then this difference would not exist. But the country is in a state of society where a large number of people are in the earlier stage—you may call it primitive to a degree; and they are not likely to change materially very soon in the near future. In that state of society they are certainly more interested as sellers than as buyers.

4044. The most primitive stage to which you have referred, where people neither buy nor sell, we can understand; but I still fail to apprehend why, in the further stage to which you have referred, they are more interested in one capacity than in the other. The money they get they want to use again?—In the first place taking the agricultural family, its immediate requirements are as a rule food-stuffs, and their needs are satisfied by the efforts of the household itself, if we take that as a sample. So to that extent the agriculturist does not buy in the market. Of course he has other requirements, luxuries or some other necessaries which he is not able to so supply and to that extent he will be buying in the open market; but his total buying transactions will be less than in the case of any other household which will be dependent only on purchasing its goods and not supplying its necessaries by its own efforts; whereas the surplus goods which a household produces and which it does not consume itself, it will be interested in selling; so on a balance, I believe that the buying transactions will be less than the selling transactions; and of course the surplus which the family receives is stored up or turned into ornaments and so on.

4045. The purchase of ornaments is a purchase like any other?—Quite.

4046. If it is value stored up, it is value for a future purchase?—Yes.

4047. And the interest as regards that store of value is precisely the same as if it was used up for immediate purposes?—I quite see it; there is an offset to that extent; I do not deny it.

4048. I think I may summarise your evidence by saying that, recognising that there are disturbances resulting from an increase of currency necessary to achieve the new ratio, you are nevertheless of opinion that there are permanent benefits to be gained from the establishment of a lower ratio which, in your opinion, are more than offset by the disturbances which would result from getting there?—Yes.

4049. (*Chairman.*) That completes the questions which I wanted to ask you. I have no doubt some of my colleagues have supplementary questions to put.

4050. (*Sir Rajendranath Mookerjee.*) Food is as much a necessity as clothing?—Yes.

4051. The poor man would rather have his clothing first; he could beg his food, but he must have clothing in order to go from door to door, *i.e.*, before he can leave his house; therefore if your exchange benefits the agricultural producer in the country he will have to pay more for his clothes. Which do you consider to be more advantageous to him?—In the first place I would say that though there may be a certain class of people who may prefer the acquisition of dress to the acquisition of food, on the whole I do not accept your premise that people would prefer dress to food.

4052. I will not say prefer; say that they are both equally important; they cannot do without dress?—My answer to the chairman was this: the requirements of an agricultural family may be divided into several classes; the primary requirement of course is food, and the other is clothes. One of the fundamental requirements is met by the efforts of the family itself, for which it has not to enter the market. Of course to the extent to which the family does enter the market to purchase the other requirements it will be affected by the level of prices.

4053. And you admit that by lowering the exchange the other prices will go up, that is, clothing or the other necessaries of life?—Yes; except what is its own produce. The price of food-grains in the bazaar will go up certainly; but the agricultural family depends on its own produce in the field; it does not go into the market because it does not buy there.

4054. He will have to buy other necessaries of life?—To that extent of course he has.

4055. (*Sir Alexander Murray.*) In your statement, under the heading "Remedies" (Appendices, page 180), you quote from Dr. Gregory regarding the effect of the gold standard system. I expect you will also accept Dr. Gregory's statement at page 12 of his book that in "gold exchange standard countries the same effect was achieved, directly, by immediate sale or purchase of the local currency against gold." You give the effect of the gold standard quoting from Dr. Gregory. Dr. Gregory also in the same book says that the same effect is arrived at in gold exchange standard countries as in gold standard countries?—May I have the book for a while?

4056. You quoted from pages 46 and 47; that is exactly on the same subject; he is writing in the same connection?—On page 43 I have quoted a paragraph.

4057. Pages 46 and 47 you quote from?—I am pointing out another place; that is with reference to the whole answer if you do not mind. On page 43 Dr. Gregory describes the existing system in England of the Bank of England buying and selling gold; that is the gold exchange standard system. The system of currency in England at present by which we have full legal tender notes only and gold is bought and sold by the Bank of England is described by Dr. Gregory as the ideal gold exchange standard system. Now, the gold exchange standard with which we are familiar in this country is certainly different. So the meaning that Dr. Gregory had in mind is different from the meaning attaching to the phrase with which we are familiar.

4058. On page 12 he is talking not of England as it exists to-day, but of the gold exchange standard countries as they existed in pre-war days, and he suggests that the same effect was arrived at under the one system as the other?—In the first place, I do believe that the phrase is used by Dr. Gregory with a meaning different from that which we have in mind. In the second place, this statement made by him is subject to the qualification so long as the gold exchange standard system works systematically; if it breaks on account of any defect in the system itself, of course this remark does not hold good.

4059. Similarly, just as the gold exchange standard broke down in some of the countries owing to the war, the gold standard also broke down in other countries?—Of course; that is true of all human institutions.

4060. One of your objections to the gold exchange standard and one of the defects which you refer to in your "Summary of Defects" is the management of the system. To quote again from Dr. Gregory; he says that "the currencies of all commercial countries before the war, even those which were full gold standard countries, were 'managed currencies'"?—I don't object to the fact of a currency being managed. To a certain extent the management will be there under any system of currency; even under the proposed gold standard there will be some amount of management, if not by the Government, by the Imperial Bank on behalf of the Government. But if the management is such, in the first place, that it is understood by the people, in the second place that it has no adverse effects on the condition of the people, and in the third place, that there will be no possibility of misgivings, that is if

the management is in the hands of experts and so on, then there is no objection. In other words, as little management as possible is desired.

4061. Quite true, but you will admit that there is management nowadays under both systems?—Quite so. Management there is, but the less the better.

4062. And, quoting again from Dr. Gregory, "it may be argued that the necessity of facing the possibility of heavy American exports of gold proves that the gold standard in the post-war period is itself a 'managed currency'"?—Again, the answer is the same, Sir, that management does exist in both currencies; it is a question of degree.

4063. That is all I want. One other point. You refer to the fact that immediately after the introduction of a gold standard there will in all likelihood be a rush for gold—tailing off later on as it becomes better understood?—Yes.

4064. Now, in that connection, have you considered what effect the introduction of the gold standard, with or without a gold currency, will have on the question of hoarding? I mean, will the new part to be played in India by gold as a basis for money not give it an increased prestige and increase the demand for its use as ornaments and in the arts, apart from its natural suitability for hoarding?—I think otherwise, Sir. That there will be a great possibility to unhoard the existing hoarded gold in the country if we had the gold standard with gold currency.

4065. The point I want to get at is—does the raising of the prestige of gold as a basis for money in India not add to the attraction that it will have for the people of India for ornaments and crafts? Now, I speak from my own experience in that connection, because I have seen poor people in my time wearing, first of all, shell ornaments, then later on metal ornaments, first brass, then silver, and then gold, and I mean, as you raise the prestige of the metal in the country, will there not be an increased demand for gold in the country for ornaments instead for the silver ornaments which people hitherto have preferred largely because this metal was in the rupees since olden days?—I don't think so, Sir. Those who are at present in a position to acquire gold—of course gold is available in the market though it is not useful as currency—those who are rich enough do use gold ornaments now, it is only these people who will be using gold ornaments in the future and the increased demand for gold for ornamental purposes—I do not see how it could arise.

4066. You do not appreciate the fact that the raising of the prestige of the metal will make any difference in the type of ornaments or the use it is put to?—I should put it the other way. The prestige of gold to-day is raised in a very queer fashion, and if we were to have a gold standard and gold currency—though it seems a contradiction in terms we should be lowering the prestige of gold in India. At present people are hoarding gold because they put it on such a high level as the best store of value better than the existing currency; so that you will be lowering the prestige by allowing people to unhoard their gold and use it as currency. Am I clear, Sir?

4067. Yes, that is one point of view, certainly. One other question. I gather you are of opinion that, if gold is made readily available for exchange into notes, it would give greater confidence to the people?—Yes, Sir.

4068. Now, why should that be? Is it not the case now that notes are accepted not because they are convertible into silver rupees, but because the holders know that all other people will accept them? I mean it has nothing to do in the minds of the common people now, it is of no consequence, whether the reserves are of gold or silver, but the fact that influences the Indian or any other people in accepting notes is the fact that they will be convertible?—Convertible into rupees?

4069. Yes, convertible into currency. Therefore, it is immaterial what the nature of the reserves are against the notes. The people accept the notes simply bcause they know that they can pass them on to somebody else and use them for the purchase of commodities?—And because of the conviction in addition that, if they do not want to purchase the commodities, the note is equivalent to the silver rupees. They could always demand rupees in return for the notes. It is that fact that induces people to accept notes as currency.

4070. And they hoard notes also? Notes are kept up also by the people?—I don't think so, to any large extent. They may do so casually—in the sense in which we hoard some notes in our pockets.

4071. (*Mr. Preston.*) Professor, might I direct your attention to your Summary of Defects, section 4? As a defect you say: "The system will break as soon as the price of silver rises to the rupee melting point." Then in section 6 you say: "A huge token currency of rupees of fluctuating value has come into existence in which the people have lost confidence." Now, is it not a fact that section 4 would be a strengthening factor rather than a defect?—I fail to understand how you mean, Sir.

4072. Let me read it again to you. You quote certain summaries of defects and you say: "The system will break (that is, the gold standard system) will break as soon as the price of silver rises to the rupee melting point." I put this question to you—is that not a strengthening factor rather than a defect?—I have tried to argue in the body of the evidence that it is a defect.

4073. Let me put it this way—that from my point of view, instead of being a defect it is a strengthening factor in the system. I should like to know how. What we are suffering from in the land of India to-day is a redundancy of silver rupees. We do not know what to do with them. And you suggest here that a huge token currency of rupees of fluctuating value has come into existence in which the people have lost confidence. You admit it?—Yes, Sir.

4074. Now, let me assume that silver went to 50 pence, that would be about the point at which we could melt our rupees, and if we could get that consummation which we all desire, what would be easier than to melt down a lot of our rupees at 50 pence and get gold, to the extent of the silver which you could melt down?—My answer to that question is that when I say in section 4 that, when the price of silver rises to the rupee melting point it is a defect, what I mean is that it is a defect in maintaining the gold exchange standard system of which the main function is the maintenance of the external value of the rupee with reference to sterling or gold. During the war, of course, the experience which you suggest, Sir, did arise, and in 1917, as soon as the price of the rupee touched 43 pence and higher, it was perfectly possible for the people in India to melt down rupees and make a profit. But the Government would never allow such a profit to the people. In order to maintain the currency system going, Government has to raise, as it did, the exchange value of the rupee and once again restore the token character of the rupee. So that windfall of profit to the people is not likely to arise, Sir.

4075. But then does not that come within the category of those points which the Chairman brought forward as remedial measures?—But mistake was made with reference to the date which was 1920, February, March and April, if my memory is right. The average price of silver was then about 86; if the Government at that time had simply said: We will not pay 86 pence; we give you absolute freedom. We cancel our bond; sell it for 86 pence. Let me say that is a state of affairs which I don't think any Government in its wisdom would support.

4076. You would not now call it under a new remedial scheme a strengthening factor?—No, Sir.

4077. You still maintain it is a defect?—Yes, Sir.

4078. (*Sir Maneckji Dadabhoy.*) Professor Vakil, I draw your attention to the section of your memorandum headed "Gold Standard in India." You say

therein, that "In India, under present circumstances, the sudden introduction of gold notes as the only full legal tender without gold coins is likely to be misunderstood, and may not succeed. It is obvious, therefore, that for some years to come at least the gold standard in India will require both gold coins and gold notes in circulation." Is it practicable that during the early stages of the introduction of the gold standard we shall be in a position to issue large quantities of gold?—Yes, Sir.

4079. It will be. There would be no difficulty?—Difficulties there will be to some extent in acquiring the necessary quantities of gold, but in the next section headed "Practical difficulties" I have tried to point out what will be the nature of the difficulties and the possible resources.

4080. I have seen that. But it will take some time for the introduction of gold currency?—Yes, Sir. It will have to be spread over a certain number of years and in certain stages, more or less on the lines suggested in the scheme supplied to me.

4081. And it will not be a serious impediment to the introduction of gold?—I do not think so.

4082. Will not the people in the country at the initial stages be dissatisfied with gold notes?—I do not think so.

4083. I mean gold notes without gold coins. If he presents gold notes he will not get the gold against them. That is what we are intending. People will not understand. As you know a gold standard does not necessarily denote gold currency?—Hence I specifically mention that we should have a gold currency.

4084. We should have. And people at the early stages would not be satisfied with purely gold notes in exchange?—They will not be satisfied without gold currency.

4085. Then you stated that we should require—your estimate was about 100 crores in answer to the Chairman—you said we should require 100 crores for conversion purposes?—This amount would take some time to come out.

4086. What period would this 100 crores for conversion be spread over?—About 10 years, as I said in answer to the Chairman.

4087. And it would also be necessary to retain a large number of rupees on hand for the purpose of the convertibility of our note issue?—We already have in the paper currency reserve about 90 crores of rupees, and we shall be getting according to the estimate about 100 crores for conversion; that is about 200 crores probably in the course of these ten years, and the idea under discussion was to sell gradually these stocks of silver to turn into gold so that during the period when this process was going on, there would be sufficient stocks of silver on hand.

4088. Will you please tell us what economic effect this huge dislodgment of silver, this huge release of silver, would have on the internal prices?—It will have no appreciable effect on the internal prices of the country because we start on the supposition that the unit of price will be the gold coin. As soon as we have the gold standard and gold currency, our unit, as I suggested, would be the gold mohur. The rupee is to be a limited legal tender, a subsidiary coin, a mere matter of convenience as the shilling in England is, for internal purposes. Though people deal in shillings for small transactions, the internal level of prices is not affected by the volume of the shilling currency. It is the sterling which is the unit for the settlement of transactions, and it is the volume of the sterling currency which affects prices in either direction; in a similar fashion if we have a gold standard with a gold currency, the unit of our currency being the gold mohur, say, both internal and external prices and our export and import transactions will be settled through the medium of the gold coin, the mohur; the rupee will be limited legal tender, reduced to a subsidiary token position, and it will have no effect on the level of prices. During the transition period it may have some effect, but that is worth risking.

4089. It is not likely to have any effect on wages?—Yes, not likely.

4090. In your opinion the price of 50 crores of rupees, the premium which we have to pay for the introduction of this standard, is not high?—Yes, not high.

4091. We have to remember that this increase to the national debt to the extent of 50 crores will, I understand, be spread over a fixed number of years?—During the time that we have to raise external credits, it will not be all 50 crores in a year.

4092. How many years?—During the first 10 years.

4093. The necessity for raising credits will arise when our existing resources for gold are exhausted?—Yes.

4094. And this extra charge on the revenues of India, I understand, will have to be met by temporary taxation?—If there is a retrenchment in the national finance, if the Government of India finances are in a position to meet this extra charge, well and good; if not, I am prepared to have additional taxation for the purpose.

4095. You would even go to the extent of additional taxation for the purpose of introducing this scheme?—Yes.

4096. Your conclusions in answer to our learned Chairman regarding the ratio to my mind are very important, and I want to know exactly if I have understood them correctly. You in the first instance argue that if a gold standard is to be introduced, you would continue to keep the ratio to 1s. 6d. provided the rupee is to be a limited legal tender. That is the first conclusion. The second conclusion you have drawn is that if the gold exchange standard is to be kept, we must necessarily revert back to 1s. 4d.?—Yes.

4097. And between two stable ratios the Government will find it more convenient to maintain the lower rate?—Yes.

4098. There is one more question. In the summary of your recommendations, clause (3) you have said that a "separate gold coin, called the mohur, of the same weight and fineness as the sovereign be issued by the Indian mints." Then you want something equivalent in value to a sovereign?—Practically the same, excepting the name.

4099. (*Sir Maneckji Dadabhoy.*) I may tell you that we had two opinions before us; one was that we should have an actual gold coin of Rs. 10, another was that we should have a gold coin of Rs. 20. Are there any special reasons for preferring an Indian gold coin equivalent to the value of the sovereign?

4100. (*Chairman.*) The principal reason given by the witness before was that having a sovereign entails having a branch of the Royal Mint. The Professor thought that it was undesirable, so that does away with the sovereign question.

4101. (*Sir Maneckji Dadabhoy.*) My question is slightly different. Why do you think it necessary to keep up a coin equivalent in value?—The sovereign was declared legal tender in 1899, and we have been seeing it. People are familiar with the use of the sovereign. We have been accustomed to the 15 rupee gold coin for so many years as against any other denomination, say, a Rs. 10 or Rs. 20 coin; because we are accustomed to the 15-rupee coin, I should prefer it to any other denomination.

4102. In other words, people have got accustomed to the Rs. 15 coin, and it would be much better to keep up the tradition?—Quite, and we had the mohur also of the same weight and fineness. This would be more in consonance with the wishes and habits and conditions of life of the people, and it would be better to continue it.

4103. (*Sir Henry Strakosch.*) With reference to the statement you made regarding the rate of stabilization, you stated that it would be necessary to stabilize at 1s. 4d. in case a gold exchange standard is introduced, and that it would not matter very much at what point you would stabilize in the case of a gold standard. I do not quite appreciate why it

should be necessary in the one case to come to 1s. 4d. and in the other case to choose?—The reasons which I gave to the Chairman I may repeat. When we have the gold standard, the rupee becomes a limited legal tender, a subsidiary coin. It loses all its importance which it certainly has under an exchange standard. Under the gold exchange standard system the rupee remains and retains all its present position as the main unit of our currency and the unit of our transactions, and chiefly of our export and import trade. All our transactions are measured in rupees under the existing gold exchange standard system, and will be so measured if the system is continued, so that the effect of a higher or a lower exchange and any change in the level of prices measured in rupees will have to be taken into consideration if we have the gold exchange standard system continued. On that ground I suggest that it is better for us to have the 1s. 4d. ratio, firstly, because of the interest of the people of India; secondly, because it is more possible for the Government of India to maintain that rate. When I spoke of the gold standard with the rupee as limited legal tender, reducing the rupee to the very subsidiary position of a mere token, not affecting the level of prices, not affecting all transactions but a mere matter of convenience, it does not matter, I believe, in principle at what rate we keep the rupee with reference to gold. The question of rate, which is certainly very important, the most important when we have the exchange standard restored, almost disappears when we have the gold standard.

4104. But is there any reason why you should not stop the further coinage of rupees under a gold exchange standard or in fact even make them limited legal tender?—I understand under the gold exchange standard system even under the proposed scheme, the rupee remains unlimited legal tender.

4105. But if for argument's sake we were to stop the further coinage of rupees, would you still say that it is necessary to go down to 1s. 4d.?—So long as the rupee remains unlimited legal tender and the chief unit of currency, I would prefer 1s. 4d.

4106. Now let us go further. If you retain it as unlimited legal tender, and if you regard it in other words as a note printed on silver, then, as long as you have provided adequate reserves of foreign currency or gold for export, you will be in no different position to a system where you have an extensive issue of notes printed on paper?—That does mean that we shall require more rupees, and is an additional ground that we shall be required to coin more rupees.

4107. If the rupee takes up the position of a silver note with the necessary provision for conversion as you suggest—I believe I understand you aright—then just as we require additional note currency, paper currency, similarly, additions to that silver currency will also be necessary, and if you make the necessary provision for reserves, I see no reason why it should not function in exactly the same way as the full gold standard?—I have discussed in detail some of the defects which can be remedied by an improved gold exchange standard, but not all.

4108. But that particular defect can be remedied provided you keep adequate reserves both against your notes and your notes printed on silver?—I agree to that.

4109. And therefore in those circumstances you would see no insuperable difficulty in fixing upon a rate which need not necessarily be 1s. 4d.?—What I pointed out in answer to the Chairman was this, that in order to maintain the exchange rate at any particular figure to provide for emergencies, the Government would be required to have certain reserves. Those reserves may be less with the 1s. 4d. rate than with the 1s. 6d. rate. The strain on the reserves would be larger with a 1s. 6d. rate. I started on the assumption that we were liable to famines in this country. They are a frequent occurrence and they bring about an adverse balance of trade, less exports, that is an adverse balance of trade. In such emergencies, when the people in the country are in difficulties against which the Government has to provide by means of famine insurance schemes, the reserves of the Government are already strained to relieve famine-stricken districts. At that time if the Government is required to have very large resources to maintain the rupee at 1s. 6d. it would be more difficult for them to do so. If it is at 1s. 4d., then the strain would be less.

4110. I cannot quite appreciate the point. If I may put it to you this way, if you were to choose the 1s. 4d. rate, then obviously prices would rise; if the internal prices have adjusted themselves to-day to the 1s. 6d. rupee, internal prices would have to rise to adjust themselves to the 1s. 4d. rupee and a larger amount of additional currency will be in circulation. Well, why in these circumstances should it be more difficult for the Government to maintain a 1s. 6d. rupee than a 1s. 4d. rupee? If you look at it from the point of view of the adverse balance of trade or look at it from the point of view of the contractibility of the currency, you get to the same result. If in the one case you are able without undue inconvenience to contract your circulation by 25 per cent. and that is the measure of your requirements for external payments, the 25 per cent in the one case will be the same amount as the 25 per cent. in the other case?—I should give you an illustration. The difficulty will be somewhat of this nature. The Government of India did experience it when they adopted the 2s. rate. They could not maintain the 2s. rate in spite of their sales of 55 crores worth of reverse councils and they had to abandon the effort. If the rate had been fixed during those dates at a lower level, say at 1s. 4d., it would have been possible for the Government to maintain it and not allow the exchange rate to drift as it was the case. Some such similar difficulty I apprehend if our rate is higher than the pre-war normal.

4111. But was that difficulty of the 2s. rupee rate not due to the fact that world gold prices had been particularly unstable and unduly high? And if world prices had reached an equilibrium, that danger would not, I take it, have occurred?—I certainly admit the proposition that there are always several factors affecting these questions. But I do believe that to the extent to which the rate is higher there is greater amount of difficulty on the part of Government to maintain it. It is not difficult to maintain it. In fact, the Government has maintained it for so many months. But I am trying to balance the advantages in all directions, and I do feel that on the grounds I have mentioned, 1s. 4d. rate is practicable and maintainable.

4112. Now we must anticipate that the prospective sale of a large quantity of silver will to a greater or lesser extent affect the silver price. Now what effect or repercussion would a fall in the price of silver have upon India? Having regard to the fact that, especially in the East, a great many countries are silver-currency countries, do you anticipate any repercussion from that course?—Not very great. Our trade is more with gold-using countries than with silver-using countries. The trade with China, for example, is much less as compared with the trade that we have with gold-using countries, especially England, America and Japan; so that if there is any trouble arising on that score, it will be somewhat insignificant compared to the advantages of having a gold standard.

4113. Coming to another subject. In measuring the advantages of the one or the other, we have really got to consider what benefits we are to get from the adoption of one or the other. You told us that the ideal to be aimed at was the establishment of a true gold exchange standard, inconvertible notes internally and convertible only for export purposes on the principle that gold is international money which ought to be used for international purposes. That is your end aim?—Yes.

4114. But you propose, before you reach that end aim, to adopt a full gold standard with gold currency in the country for the one supreme purpose, namely, to educate the people to saving in things other than precious metals. Is that so?—I beg your pardon. I could not catch the last sentence.

4115. Your proposal to introduce the gold standard is made with the object of hastening the process of education in the country to invest savings in things other than precious metals?—Yes. I do not mind if the process takes a long time, that is, if that particular process takes a long time.

4116. But that is the object?—Yes.

4117. That is the primary object of introducing a gold standard?—Yes.

4118. Now we have had evidence before us which indicated that you could proceed on this educational campaign by other methods, and the evidence of those people was supported by the fact that in recent years not only has the note issue very largely increased, but the issue of cash certificates also, indicating, in other words, that the people are beginning to learn to put their savings into things other than precious metals. Now if you are to weigh which road you are going to take, is it not logical, or would you condemn it, to first choose the road that is least likely to cause disturbance and is least costly, and would you not therefore say that it is a reasonable proposition to first try the gold exchange standard for that educational purpose, and, when you have failed in educating the people under the gold exchange standard, to then adopt the gold standard?—If I may be permitted to say, we have already tried the gold exchange standard for a sufficiently long number of years and failed. That is my first proposition.

4119. When have you had the gold exchange standard in this country?—The gold exchange standard as it is popularly described; never mind the correct name.

4120. But it was not a gold exchange standard. Under the system which prevailed in this country before the war, you could not get gold on tendering rupees. That is not gold exchange standard at all?—I am sorry if I am misled by the Chamberlain Commission in calling it so.

4121. What is commonly called the gold exchange standard is, as I have said before, an internally inconvertible currency but freely convertible for export purposes?—The system as it exists in England.

4122. (*Chairman.*) The Chamberlain Commission recognised that it was different from the gold exchange standard in lacking that legal liability?—Unfortunately our system has been popularly described as being a gold exchange standard one and the ideal gold exchange standard system the system working in England at present being called gold exchange standard is substantially different from our system. There we are in agreement.

4123. (*Sir Henry Strakosch.*) But then India has not hitherto tried the real full-fledged gold exchange standard?—My point, Sir, is that we should better try an experiment which has been tried successfully elsewhere. The people of England have arrived at this present position of what you call the ideal gold exchange standard after having gold standard and gold currency, the full gold standard for more than a hundred years. We had better go on safer lines, lines of which we know sufficiently, rather than with an untried gold exchange standard about which we have already some misgivings.

4124. Even though the introduction of that system is full of uncertainties, because we have to deal with factors that are practically unknown in introducing the gold standard, and even though there are dangers in that, the expenses would be far greater, and it is conceivable that it may cause disturbance in world gold prices and therefore hit India as much as the rest of the world. Would you nevertheless recommend that the first attempt to educate public opinion in India should be in that perhaps more hazardous way?—In spite of the frightening picture that you give of the gold standard, I still favour it.

4125. You seem to have some misgivings as to the virtues of the gold exchange standard. May I ask you whether you have followed the proceedings at the Genoa Conference, and whether you know the resolutions which were passed there?—I know in a general way. I don't think I remember everything. But I think I quite follow you.

4126. But you do agree that what the Genoa Conference proposed unanimously was the universal adoption of the gold exchange standard?—In the sense in which England has it?

4127. Yes?—Yes; that, of course, is our ideal in the suggestions I make.

4128. So there are no misgivings as to that standard?—I mean the gold exchange standard, in order to avoid ambiguity, let us say the English system, that is our ideal. But before approaching that ideal, in view of Indian conditions, we necessarily have to go through the procedure which England has gone through for the last hundred years, namely, gold standard and gold currency, and learn the use of gold which we do not understand at present.

4129. Now there is one other point. In estimating the amount of gold and expenses involved in the introduction of the gold standard, you have told us that you think it would cost about 50 crores. I am not quite sure whether, in arriving at that figure, you have taken into account that, apart from giving the country a gold currency, it would be necessary to provide reserves against your note circulation, which, I take it, will have to be at least as large as the reserves which you have under your present system or the gold exchange standard system?—I think I have referred to it in the body of my statement, that whatever practicable reserve system, paper currency system, we decide upon as a permanent thing for the future, during the transition period when we have to mobilise our gold resources with a view to have an effective gold standard, it will be necessary for the Government to allow the metallic portion of the reserve to go down to a minimum level.

4130. What is that minimum level?—That is a level which will have to be worked out with reference to the possibility of notes being presented to the Government for immediate conversion during the transition period. Ordinarily, of course, the Government keeps a larger metallic reserve than it immediately requires, and just as during the war measures these reserves were allowed to go down, similarly similar measures may be taken with a view to see that the required gold in the paper currency reserve is less than the permanent requirements, so that the introduction of the gold standard may be helped by that method.

4131. Now what would be your proposition under the full gold standard, with gold in circulation? What would have to be the reserve requirements against your notes then?—I generally agree with the suggestion made here in the scheme presented to me.

4132. I only wanted to know whether you thought these reserves would have to be at least as substantial as under any other system?—I think so. Of course, paper currency will have to be supported by quite a good substantial reserve.

4133. Because you do not rely upon the gold in circulation as readily available if it is necessary to correct some tendency of the currency to depreciate?—Excuse me, Sir; I do not quite agree to that proposition. Gold, if it is in circulation with a gold standard and gold currency and if the Imperial Bank is selling and buying gold as the Bank of England does, we shall have an automatic contraction or expansion of the gold currency, if trade conditions required it; so that there would not be any danger of the nature you describe.

4134. (*Sir Reginald Mant.*) You said in reply to the Chairman that in your opinion a 1s. 4d. rate of exchange would be of more permanent benefit to the producer in the country than a 1s. 6d. rate?—Yes.

4135. I want to elucidate the grounds on which you base that opinion. You said, I think, that the producer sells more than he buys and therefore, you thought he would make a larger profit at a 1s. 4d.

rate than at a 1s. 6d. rate. Now let us suppose that the producer makes a profit of Rs. 40. At the rate of 1s. 6d. he could purchase three sovereigns with those Rs. 40 or three pounds' worth of commodities; at the rate of 1s. 4d. he would make a profit of Rs. 45 with which he could purchase three sovereigns or three pounds' worth of commodities. Will you explain how he is better off in the latter case than in the former?—So far as the agriculturist household is not buying in the open market the food and other requirements which they supply for themselves, to that extent the market rate does not affect them, the higher level of prices at the 1s. 4d. rate which is suggested as an objection does not affect them either adversely or favourably—I mean the agriculturist chiefly because and to the extent that he does not enter the open market for purchasing the ordinary requirements of his food which he grows for himself, so that the other things which he grows like cotton and jute and so on he sells in the open market and he gets a higher price at 1s. 4d. than at 1s. 6d. This he would invest not in all his requirements, because some of his requirements are already fulfilled by his own personal exertions; some of his other requirements, less important than his immediate necessaries he fulfils by purchasing with the means which he has thus acquired. If his selling transactions and his buying transactions were equal, if the agriculturist's economy were of the modern type, a money economy entirely, then I suppose your contention would be correct.

4136. I have made no contention. I have asked a question, and I am waiting for an answer to it?—I am trying to explain the point of view which I emphasised in answer to the Chairman that I believe on account of the state of society we have in the districts their selling transactions are more than their buying transactions collectively and therefore they stand to gain in that particular respect.

4137. You still have not answered my question. You have said that they stand to gain and I have shown you that the gain as far as I can see it would be precisely the same in either case, and what I asked you is how they will gain more by getting Rs. 45 which have only the same purchasing power as the Rs. 40 under the 1s. 6d. rate whether he invests it or spends it, how is it of any greater value to him?—I am sorry I cannot catch your point still.

4138. I will repeat it. We are assuming that the agriculturist or the producer makes a profit of Rs. 40 under a rate of exchange of 1s. 6d.; if exchange is 1s. 4d. he would make a profit of Rs. 45 which he may either invest or spend. I have pointed out to you that the purchasing power of those two sums would be precisely the same in each case and I asked you how the producer has benefited from the alteration in the rate of exchange?—In the one case when he is getting Rs. 45, I mean I start with the proposition that all these rupees he acquires he does not spend in the open market to the full extent.

4139. Let us assume that for either investment or for expenditure?—So that he will be left with a larger number of rupees to himself if prices have completely adjusted themselves.

4140. We are assuming that; we are contemplating a permanent adjustment?—If that desirable state of affairs arrives then your position would certainly be correct.

4141. Then you do not maintain your position that a lower rate of exchange is a permanent advantage to the producer?—I do maintain it, Sir. I am sorry if I have not correctly understood your question.

4142. (*Sir Reginald Mant.*) I understood you to withdraw from your position when you said that when prices have been completely adjusted the results would be precisely the same, the profits would be precisely the same.

4143. (*Chairman.*) I cannot help thinking the difference between you is the assumption whether prices have been completely adjusted or not. The Professor, I rather think, is making a reservation that prices are not completely adjusted.

4144. (*Sir Reginald Mant.*) Is that correct? Do you assume that prices will not be completely adjusted?—I mean if we have complete money economy then the idea of price adjustment in the ordinary economic sense is correct. But we in India not having that sort of complete money economy over the length and breadth of the land, such a complete adjustment will not take place.

4145. Of course if that is your contention then your position is intelligible; but on the supposition that there was complete adjustment I could not understand your position?—I am glad to be corrected by the Chairman. I hope you understand my position.

4146. (*Sir Purshotamdas Thakurdas.*) With reference to the last question, do you think the adjustment of prices has been achieved by now or prices still remain to be adjusted at 1s. 6d.?—I think they have still to be adjusted.

4147. So that any change from 1s. 6d. would not mean that you are disturbing a settled surface?—Not in the least.

4148. Regarding Sir Henry Strakosch's question in connection with the primary object of introducing gold standard, Professor Vakil, you said that education of the masses in the habit of investment was one of the main objects of giving them gold currency. Have you any other object in view in introducing a gold standard besides education of the masses to invest?—I mean we shall have greater stability of prices internally, we shall have greater stability of external exchange by the machinery suggested and we shall have the possibility of unhoarding the gold which is being wasted at present.

4149. That is included in educating the masses to invest in future. Now if I may turn to that portion of your memorandum headed "Gold Standard in India" (Appendices, page 180), you say there "In India under present circumstances the sudden introduction of gold notes as the only full legal tender without gold coins is likely to be misunderstood." Will you explain what was in your mind when you said it is likely to be misunderstood?—I mean the ordinary man in the street at present is accustomed, he knows that a ten-rupee note can be converted into ten rupees, and that conviction makes him handle the note. If that conviction were not there it would be very difficult for the note to circulate. Similarly with gold notes, in circulation, if that conviction did not exist the man in the street would hesitate to handle gold notes.

4150. Therefore if people saw it printed on paper that one gold mohur will be given for it but if they never saw handed back to them in exchange for it at the currency office window the gold mohur they would not have any confidence even to the extent of the confidence in silver notes to-day?—Yes, Sir, that is so.

4151. Do you think that aspect should be borne in mind in considering any scheme?—I think so. We had experience of that kind in the War.

4152. Would you put it as high as this, that of all considerations for the purpose of greater confidence in people with regard to currency notes, this consideration should be put at the top?—I think so.

4153. Is it therefore that you said that this gold standard may not succeed if people did not see gold in exchange for paper, if they were only told that gold was in the bank, you can get it when you want it for export out of the country—that would shake their confidence?—Yes, Sir.

4154. And no risk should be taken in this connection at all?—Yes.

4155. Now regarding the ratio, I think you said in your reply to the Chairman that when the rupee is made limited legal tender you do not mind if its conversion into gold is fixed at two shillings or 1s. 2d. to the rupee. I would like to understand clearly whether you think that, when the rupee is made limited legal tender, the ratio for the conversion of the rupee even for internal prices does not matter. I would like to ask if, when the Government of India Loan due in say 1945-55 is paid in

gold currency in 1945, in your opinion it does not matter at what ratio the said loan floated in rupees last year is converted? Do I understand that you think there is no difference whether the Government of India in 1945 pay 1,000 sovereigns at the equivalent of 1s. 4d. for Rs. 15,000 or whether they pay 1,500 sovereigns at the equivalent of 2 shillings?—I certainly do not go to that extent.

4156. But you did?—I shall try to modify my statement.

4157. Yes, if you wish to, because it is very important for us to understand what you meant when you said that?—I stated as a general principle that a subsidiary coin when related to the main coin of the country may be rated according to convenience. But I did say when answering the Chairman that the factor of convenience should be given consideration, and if we find when we have a full gold standard in operation the rupee has to be finally fixed in relation to the chief gold coin, the convenience of the country from the point of view of the people and from the point of view of Government in the manner you describe should certainly be considered before fixing the rate.

4158. Excuse me, but is it a question of convenience or of hard rupees?—I quite understand your point; it would be absurd to introduce or to think of such a measure being taken.

4159. Very well, therefore, even when you make your rupee restricted legal tender, the question of the rate at which the conversion of the rupee into gold value, we will drop the shillings and pence, will take place will have to be considered in connection with the ratio?—Yes, so long as full conversion has not taken place, rupee transactions will continue to be of importance.

4160. And rupee debts?—Yes, of course the position of the rupee will have to be taken into account. When I made that very sweeping statement that it loses its importance. . . .

4161. It loses its importance when all the token coins have been converted?—Thank you, Sir, I am glad to be corrected. I would like to modify the statement that I made in this manner: it loses its importance, when all these things are taken into consideration.

4162. When all the token coins have been practically converted then it becomes a purely subsidiary coin?—Yes.

4163. Now, will you agree with me when I say that even under your scheme of gold standard as you contemplate it, there are stages when the scheme is a mere gold exchange standard until you come to the final stage where the rupee is limited tender and the Government undertake the liability to pay out gold in exchange for rupees?—During the transition period of course.

4164. And the transition period is by no means less than five years?—It may be about 10.

4165. You have said that with the gold exchange standard you would like the ratio to be 1s. 4d.?—Yes.

4166. What would you then say, that it should be 1s. 6d. until your gold standard scheme comes into force or would you say that for the present 1s. 6d. should be kept on or 1s. 4d.?—My answer to the Chairman was about this practical difficulty. If during the transition period we immediately make efforts to revise the rate to 1s. 4d., it may mean additional rupee currency; to have additional rupee currency means greater difficulties for introducing the gold standard.

4167. I do not want to interrupt, but I remember that in that reply of yours you also said that if there is a gold exchange standard put in force permanently you would like a reversion to 1s. 4d.?—Yes.

4168. *Sir Purshotamdas Thakurdas.*) As your scheme also involves a gold exchange standard in one form or another for 5 or 10 years, would you say 1s. 4d. is necessary to-day, or would you say that it should be kept at 1s. 6d.?

4169. (*Chairman.*) Let us remind ourselves of the witness's answer. What he then said was that, if his other measures were adopted, that is, leading up to the institution of the full gold standard, he would retain 1s. 6d.?—I would not mind it for the present; that is what I said.

4170. (*Sir Purshotamdas Thakurdas.*) Then you said that 1s. 4d. should be for the gold exchange standard as before the war?—I think I have discussed that with the Chairman; there are two distinct schemes; if we had permanently a gold exchange standard scheme my general proposition was that 1s. 4d. was better. If we have an immediate introduction of the gold standard with the necessary stages, it would be better for the introduction of that standard to have less rupees than more; and with that point in mind I believe I said that we need not enter into the difficulty of reducing the rate to 1s. 4d.

4171. I think you agreed with the Chairman for the purposes of the discussion that gold worth 130 crores of rupees would be required to convert the 100 crores of rupees which would come in, and on other accounts before you could adopt a gold standard?—About that.

4172. In connection with the question as how the import of such a large quantity of gold into India may disturb world prices or the world equilibrium as at present, do you know of any disturbance in the world owing to the import into India last year of 73 crores of rupees worth of gold? Have you heard of that?—No.

4173. And is there any reason why there should be any special disturbance in the world gold markets if the necessities of India are arranged according to what you have said (I took down the actual words) with the powers by diplomatic measures?—I do not think so.

4174. When you say in your written statement that India's rights to get gold should be ascertained, I suppose you did not mean anything more than that you have faith in the sense of fairness of international powers in the matter of recognising what is India's right in the ordinary course, and you count upon that to enable India to get gold?—That was the spirit of my answer to the Chairman.

4175. With reference to what you have said in section 4 of the advantages, where you mention that foreign capital if required will be available with greater ease than before, owing to stability of exchange, and that people will learn to use their hoarded gold in a better way: that is because the exchange would be stable in gold, is it not?—Yes.

4176. Do you think that if instead of the suggestion that the ratio should be changed from 1s. 4d. to 1s. 6d. there was a suggestion or there was a consensus of opinion which compelled the ratio to be lowered from 1s. 4d. to 1s. 2d. we will say, foreign capital would be absolutely disturbed and would fight very shy of any investment in India?—I am sorry I do not quite follow.

4177. The ratio till now has been 1s. 4d. Supposing there was a suggestion or a necessity to reduce 1s. 4d. to 1s. 2d., would not that hit foreign capital here?—It would.

4178. And it would be so bad that foreign capital perhaps may completely fight shy of India?—So long as such fluctuations exist.

4179. I mean, if it was necessary to change the ratio to 1s. 2d., it would be absolutely detrimental?—Yes.

4180. Therefore in order to ensure that foreign capital may not have any such shock in the future under any scheme you want to ensure stability in gold?—Yes.

4181. (*Chairman.*) On behalf of my colleagues I would like to say we are very much obliged to you for the very full assistance you have given us this morning?—May I have your consent, Sir, to the publication of my memorandum?

4182. The proceedings of the Commission, as you know, are private, but the Commission has no objection to the publication of your memorandum?—Thank you, Sir.

(*The witness withdrew.*)

Mr. P. A. WADIA and Mr. G. N. JOSHI, called and examined.

4183. (*Chairman.*) Professor Wadia, you are a Master of Arts and Professor at the Wilson College in Bombay?—Yes, Sir.

4184. And Professor Joshi, you are also a Master of Arts and also a Professor in the Wilson College, Bombay?—Yes, Sir.

4185. We have had the advantage of a very full memorandum* from you gentlemen, which you have prepared, I understand, jointly?—Yes, Sir.

4186. Which will enable us to direct the discussion towards your opinions. To whom shall I direct my questions in the first place?—(*Mr. Wadia.*) I shall begin.

4187. To Professor Wadia in the first instance, and if Mr. Joshi cares to supplement the answer in any way I will provide him with an opportunity. We are obliged to you, gentlemen, for your memorandum, on which I will ask you a few questions just to ascertain where the emphasis is laid in your views and to elucidate any points which may seem to require elucidation. The first part of your memorandum, Mr. Wadia, relates to historical matters?—Yes.

4188. I have only one or two elucidatory questions to ask upon this portion. About the middle of the first paragraph, you say: "The effective and ever-increasing use of these substitutes—bank notes, cheques and bills—depended on the confidence in the public mind that whenever gold was wanted for internal purposes or for export, it was readily available." Was gold, as a matter of fact, readily available for internal purposes during that period?—Well, what are the countries to which you would refer?

4189. The same countries as those to which you are referring?—Well, that statement should be taken as generally true, though possibly in one country or another there may be difficulty in procuring gold for internal purposes.

4190. Would you consider that the use of the substitutes was due to this availability of gold, or what would you say to the opposite school of thought which, as we know, would contend that the confidence in the substitutes was due not to the ultimate interchangeability with gold but to the circumstance that in fact these substitutes represented stable values in commodities?—Well, an effective banking organisation facilitates the use of these credit substitutes and an effective banking organisation also guarantees in a sense that whenever gold is wanted for its substitutes it will be readily available.

4191. I understand from your reply that in a country in which there is no effective banking system the only means of establishing confidence in the substitutes for gold is that they should be readily interchangeable into gold?—Well, public opinion could be educated to the use of substitutes. (*Mr. Joshi.*) May I supplement that answer, Sir? The stable value of substitutes for gold coins in terms of commodities were guaranteed simply because there was a confidence that in the last resort they were exchangeable for gold. And it was the inner confidence on the part of these holders of substitutes for gold coin that they could get gold in return whenever they wanted that was responsible for the stable value.

4192. That is the opinion which I am seeking to examine, and I was asking what your opinion would be upon the alternative contention that, as a matter of fact, what established confidence in the substitutes was not ultimately their ready interchangeability into gold but the circumstance that, as a matter of fact, the relative value of these substitutes in terms of commodities was stabilised?—(*Mr. Joshi.*) But the relative value of the substitutes in terms of commodities was circumstanced by the fact that they were interchangeable for gold.

4193. Now as regards the conditions in India, where you point out, Professor Wadia, that there is at present no general use of the banking system, is it in your opinion the case or is it not that, under present conditions as evidenced by the increase in the note circulation, the public is as a matter of fact being educated in confidence in the use of notes as a means of currency?—Yes, undoubtedly.

4194. What would your opinion be as to the effect of increasing that confidence in the rupee note as a medium of circulation in a period during which the gold value of the rupee would have been stabilised?—May I ask you to repeat the question?

4195. Proceeding from your last answer, that the public is being educated in the use of notes, what in your opinion will be the effect in the acceleration of that educative process of a period during which the gold value of the rupee has been stabilised, recognising that during the difficulties and disturbances of the last ten years the gold value of the rupee has been far from stable?—I don't see the connection. I don't see any close connection between the two. The circulation of the note depends upon its encashability in terms of rupees because at present the note is in terms of rupees. And I don't see what close connection there can be between them.

4196. Might one take it in this way—that the acceptability of the note depends, as you say, upon its encashability into rupees?—Yes.

4197. The stability of the purchasing value of the note depends on the stability of the purchasing value of the rupee. We have passed through a period during which the purchasing value of the rupee has been violently fluctuating. Would it in your opinion or would it not tend to increase the popularity of the note if the country were to pass through a period during which the gold value of the rupee had been effectively stabilised?—I don't really think that the popularity of the note will be very seriously affected in any way by the fact that by artificial methods the rupee is going to be stabilised.

4198. You would not attach any great weight to that?—(*Mr. Joshi.*) As a matter of fact it was during the period of violent fluctuations in the purchasing power of the rupee in terms of commodities that the popularity of the note in India was the greatest, because it was during the war period after 1916 that the total circulation of notes in India increased enormously. Between 1861 and 1914 the gross circulation amounted to only 120 crores. Between 1914 and 1916 it increased to 190 crores. As a matter of fact the fear which you apprehended regarding the popularity of notes varying and fluctuating very rapidly in terms of commodities is not just the right sort of fear.

4199. Yes, I understand. As a matter of fact, no doubt, Professor Joshi, you would contend that it would be improper to lay any great emphasis upon the increased circulation of notes during the war period because, in view of the enormous requirements for currency at that time and in view of the impossibility of increasing the rupee currency, an increase of the note currency was, as it were, forced. So that the fear which you apprehend regarding the popularity of the note were its value to fluctuate very rapidly in terms of commodities is not just the right sort of fear?—May I ask you what is the fear which you are entertaining when you say that during the transitional period of stabilizing the rupee, the point which you are making is whether the popularity of the note will be affected during this period by the violent fluctuations in the purchasing power of the rupee? Is that the point which you are making?

4200. My point was intended to be your point, that no great emphasis should be laid upon the increase in the note circulation during the war period as showing an increase in the popularity of the note, because as a matter of fact it was the only way in which circulation could be increased and therefore it was as it were a compulsory measure and not due to any increase in demand?—To some extent I subscribe to your view, but at the same time I lay emphasis upon the fact that people are more educated now and more familiar with the notes than they were in 1914.

* Appendix 20.

4201. It is your opinion then that we may expect to see an increase in the note circulation based upon the growth of the popularity of the note?—Yes.

4202. Now before we come to the substance of your memorandum, there is a question in a lighter vein, Mr. Wadia, I would like to ask you. Is it quite right to say that you have only to offer in theoretical defence of the gold exchange standard before the war Mr. Keynes?—I am open to correction.

4203. (*Chairman.*) Let me suggest to you the names of Plato, Ricardo and Mill.

4204. (*Professor Coyajee.*) And Professor Kemmerer.

4205. (*Chairman.*) Would you accept these names as the names of economists of reputation or not?—Yes, Plato and Ricardo without any demur.

4206. And, as I am reminded, there was the Genoa Conference.—(*Mr. Wadia.*) The Genoa Conference was thinking of a somewhat different kind of trouble.

4207. Would you amplify that?—The problem before the Genoa Conference was the problem of what to do in the case of countries which have not enough gold resources to go back immediately to a gold currency apart from other difficulties, and therefore they thought that if we could economise the use of gold by sparing it so far as internal purposes are concerned and use it only for external purposes, we would be in some way helping those countries to restore the monetary stability. In the case of India the issue is altogether different; we are not starving for gold; so that under those special conditions, the Genoa Conference may have been justified in recommending a gold exchange standard for countries situated as some of these European countries were. We are entirely differently situated.

4208. What is the essential difference?—India can command the gold on account of its favourable balance of trade from year to year. We shall not be lacking for want of gold. Those countries have that difficulty, so that I cannot accept the Genoa Conference as having any bearing on the Indian problem.

4209. The favourable balance of trade at the present time is covered partly by the settlement of the so-called Home charges?—Over and above the Home charges there is an enormous balance.

4210. That is one element, and, secondly, by the importation of gold in various forms?—Yes.

4211. Which is made use of at the present time by the people of the country in various ways for ornaments?—Not necessarily all of it at the present time. If there was a free gold mint with all the facilities of a gold standard, much of the gold that now comes to India would flow back to the mints; it is not all intended for non-monetary uses, and a considerable part of it may be attracted to monetary uses.

4212. That would be to provide for the normal increase in the currency which was required from year to year?—Yes.

4213. To provide for a substitution of the existing currency by gold you would require an additional supply of gold?—I am coming to this point. (*Mr. Joshi.*) As a matter of fact the Genoa Resolution only suggested an expedient or palliative during the transitional period when countries which over-issued their notes during the war could not find out——

4214. Your impression of the recommendations of that Conference, Professor Joshi, is that the gold exchange standard was recommended as a temporary expedient pending a general return to a full gold standard?—(*Mr. Joshi.*) Yes, because Professor Cassel, who also participated in that Conference, has expressed himself in favour of the gold standard in his latest book, "Fundamental Thoughts on Economics"; has not wavered in the conviction regarding the desirability of a gold standard in the present circumstances of our knowledge and experience.

4215. Of course, Professor Cassel's views might be one thing and the opinions of the Conference might be another?—(*Mr. Joshi.*) But as a matter of fact the Genoa Conference dealt with a problem which was entirely a European problem.

4216. You are of the opinion that the recommendations of that Conference had no application at all in India?—(*Mr. Joshi.*) Yes; moreover, I will further enlarge and say that the Resolution was meant to economise the use of gold, and the gold exchange standard as it operated in India has resulted in the most unproductive use of the gold which she commanded.

4217. That is a point raised in your memorandum to which we shall come later?—I am just making the remark that it is possible that the immediate difficulties obsessed the minds of the people at Genoa and that may be partly responsible for the emphatic manner in which they recommended the advantages of a gold exchange standard.

4218. The essential difference we understand in your opinion being that India can command a supply of gold up to the need of its requirements?—Yes, and we want to economise gold just as much as those countries.

4219. Proceeding to your memorandum, in the first paragraph, under the head "Examination of the Theory" (Appendices, page 189), Mr. Wadia you say: "If the gold exchange standard aims primarily at fixity of exchanges, it is aiming at what is merely a facility or convenience to those engaged in foreign trade, and not at what is of profound importance to the country at large. Assuming that the gold exchange standard secures stability of foreign exchanges, does it secure relative stability in the internal level of prices?" Is it possible by the adoption of one currency standard rather than another to secure any greater relative stability in the internal level of prices? Do you get it more by a full gold standard than by a gold exchange standard?—The index numbers between 1900 and 1914 throw a light on the history of prices in India.

4220. That is, the old pre-war course of prices?—Yes.

4221. I understand from that reply that it is your opinion that the gold exchange standard as it existed then was responsible for some instability of internal prices?—Yes.

4222. Will you amplify that, Professor, and show us by means of figures how that occurred?—I am sorry I have not got the index numbers here, but there is no doubt of the fact; we have shown it in a volume that is in Messrs. Macmillan's hands; the index numbers in India show a higher level throughout this period, 1900 to 1914, than the general level of prices in gold standard countries; and that is a fact to which Mr. Keynes himself bears witness in one of the articles that he wrote in the "Economic Journal" as early as 1909. He there distinctly finds out that the prices in India were considerably higher than prices in Great Britain and elsewhere.

4223. No doubt you have in your mind figures in support of that point of view. What is the source of those figures?—We are referring to such index numbers as were calculated for those periods.

4224. I have before me a very brief summary of the Calcutta index numbers for that period. May I put it to you and see whether in your opinion it supports that contention. Taking 1895 as the base of 100 and comparing the indices for India, England and the United States of America, during the pre-war year 1913 and comparing these with the base year of 1900 I find that these indices give for India in 1913, 138; for England, 137; and for the United States, 141. Taking those figures for what they are worth, do they show any relative instability or maladjustment of prices in India in comparison with those of the world at large?—I am not prepared to take those index numbers without further study.

4225. I must not ask you to take them without further study, but those are the only index numbers available?—We have made out a very clear case. I am sorry I have not got a copy of the manuscript. As I said, Mr. Keynes admitted as early as 1909 that the index numbers show a remarkable rise as compared with the index numbers of England.

4226. You will no doubt recognise that this Commission must seek to go behind personal authority,

even although it is the very highest?—I am quite prepared to show the index number that we have prepared.*

4227. I think it would be of very great interest if you could indicate for our enlightenment the figures which you have in mind?—(*Mr. Joshi.*) There are regular index numbers, and I can authoritatively state without fear of contradiction that the index number of Indian prices was higher than the index number of prices in Great Britain or elsewhere.

4228. To what index number are you referring?—The index number of the Government of India is rather an illusive phenomenon, and taking the index number on which we can lay our hands so far as India is concerned, we can say clearly that the rise of prices in India is higher than the general rise in the world.

4229. We understand that we shall have the benefit of considering any calculations that you have been able to make on this subject. If I understand your contentions, it is that the instability was due to the circumstance that there was no provision for the automatic contraction of the currency under the pre-war system?—Yes.

4230. The next question which I am going to ask you is in order to elucidate whether or not such a defect as that is remediable on a perfected gold exchange standard, or whether, on the other hand, it is irremediable. We have placed before you some outlined proposals.† Let me draw your attention in those outlined proposals to the proposal outlined in paragraph 4, which is there described as an " attractive " proposal, the word really being " alternative." If you have been able to give consideration to that alternative proposal, it is a proposal, as you see, for the combination of the reserves and for the use of the combined reserve, with definite limitations, as a means of covering the external value of the internal currency of the country. Were the reserves to be combined in that manner, with definite limitations as to the proportions of the reserves, would that or would it not, in your opinion, provide a mechanism which would effect the automatic contraction of the currency and thus remedy the defect in the pre-war system to which you have referred?—Any provision of statutory obligation on the part of the Government to give gold coins or sterling in exchange of rupees may not remedy the defect or will not make the system automatic, and even if it makes it automatic, well, it does not secure a sound monetary system for India.

4231. Leaving aside the general question, supposing the system provides for the automatic contraction of the reserves against the sale of external currency or internal currency, would that or would it not, in your opinion, remedy this defect in the pre-war system to which you have referred?—It will not, because normally India has a favourable balance, and so long as there is a favourable balance, there is no room for contracting currency. You could contract currency only by the sale of reverse bills; that means when there is an adverse balance.

4232. If I may seek to follow you step by step, is there in general any necessity for contracting the currency when there is a favourable balance?—But favourable balance may be adjusted either by way of currency or by a shipment of bullion.

4233. In fact and in practice, does not the necessity or the desirability for a contraction of the currency arise when there is a temporary turn of the balance either to make it adverse or less favourable?—I do not follow you.

4234. As a matter of fact, in practice does not the need for the contraction of the currency in order to support the gold value of the internal currency in general only arise when the balance of trade either becomes positively adverse to the country or, on the other hand, less favourable than the normal?—When it is less favourable than normal, there is no necessity for contracting the currency, because, as a matter of fact, it is only in case there is an effective adverse balance that there is room for contracting the currency and any statutory obligation on the part of the Government to give international currency or gold in exchange of rupees would only arise when there is an adverse balance, and for a country like India, even this provision will not make the currency automatic, and that will be a dead letter. Statutory obligation on the part of the Government when there is a favourable balance would be a dead letter, so far as contraction of the currency is concerned.

4235. Would you agree, Professor Joshi, that the defect in the pre-war currency might be thus expressed: that in a bad year reverse council bills would be sold, but that there might be no resultant contraction of the currency which would serve as a gradual automatic correction to the influences which were making for the weakness of exchange?—(*Mr. Joshi.*) That is true for bad years. For bad years there is a provision. If the statutory obligation is undertaken, then for bad years we do get an automatic provision for contraction. But the point I am making is that normally there are very few bad years, and during these years there is no room for automatic contraction of currency in this country, even under this improved gold exchange standard system.

4236. Under a full gold standard, how would the currency be contracted?—The mint value and the market value being identical, there is an alternative use for the currency. Here in India under the gold exchange standard there is no alternative use for the rupee. It is only a note printed on silver, an inconvertible note at the same time.

4237. Turning to your memorandum, in paragraph 18, you say: " Finally the stability of price level . . . may not be equally desirable for a country like India with potentialities of industrial development in the future and for whom therefore slowly rising prices, not due to overissue of tokens, but resulting from the adoption of a gold standard, may be a necessary stimulus to industrial expansion." The question I want to ask you upon that is this: Is it in your opinion, in the first place, quite clear that a state of a slow rise in prices is in the interests of the whole national community in such a country as India where industrial interests are only a comparatively small portion of the total interests of the community?—(*Mr. Wadia.*) But we believe the need for industrialisation to be so urgent in this country that even if slightly rising prices may mean a loss to agriculture we will be prepared to face it.

4238. I will put it very crudely. I am sure you will not accept my suggestion. Your answer does suggest that you are prepared to sacrifice agricultural interests to the interests of the country?—Assuming that there is a conflict.

4239. Let us take it on that basis: Is there or is there not a conflict between the interests of agriculture and industry in this matter of the desirability of a slow rise in prices?—(*Prof. Joshi.*) What we mean is this: An upward trend in the general level of prices which is genuine and natural by the adoption of a gold standard does not create any difficulty for the agriculturist and where there is a gradual upward trend in prices, there is no conflict of interest between the various sections of the community as such. That is all that we mean. What we are against is an artificial rise in the general level of prices which is the result of an enormous issue of token coinage.

4240. May I ask a question on that? I suppose it might be said, might it not, Prof. Joshi, that any change in price levels which is the result of the introduction of one currency system rather than another is an artificial change? Would not, therefore, your objection to artificial changes in price levels apply as much to those which would result from the introduction of a gold standard as those which would result from direct inflation?—By the introduction of a gold standard, there will be an artificial increase in prices. On the contrary, we are making it more natural.

* Printed as Appendix 21. † Appendix 2.

4241. Will you amplify a little your answer, in which you express the opinion that the gradual rise in prices would not be contrary to the interests of the agricultural population?—India being overwhelmingly an agricultural country and as she is an exporter, agriculturists as consumers may be affected adversely, but as producers of raw materials and food grains and as exporters they will be benefited by a rise in prices.

4242. Will not the prices which will be most directly affected be the prices of articles imported into India?—Under the gold exchange standard there is no safeguard. The difficulty or the result is worse under gold exchange standard than under the gold standard. That is the point we make. We are choosing between two evils, if at all they can be called evils.

4243. To make this matter as clear as it may be made, why, in your opinion, would the adoption of a full gold standard result in a rise in prices?—(*Mr. Wadia.*) Well, we are judging from the experience of gold prices roughly over 70 or 80 years. The production of gold has fairly kept a little in advance of the increasing demands for gold for monetary purposes.

4244. That refers to the world's total supply?—Yes; and there has been during the last 70 or 80 years a slow upward movement in prices, I mean taking the thing as a whole and not judging by individual decades.

4245. I understand the effect of your answer is that the result of pegging the rupee to gold would be that, in consequence of the relative supply and demand of gold in the world at large, there would be in India a slow rise in prices?—If we have a gold standard, Indian gold prices will follow world movements.

4246. That involves the opinion, as I understand it, that the general movement of world gold prices will be a rise in the world gold prices?—Judging from the past it has been so. It is very difficult to predict what the future may bring.

4247. Have you been able to make any study as to the relative supply and demand of gold and its effect upon world gold prices in future?—So far as estimates are concerned, we are told that the average gold production during the next five years may continue to be on the same footing as during the last five years.

4248. What estimate are you basing that statement on?—(*Mr. Wadia.*) We are referring to the Gold and Silver Commission's Report of the United States of America which has been issued only in the beginning of this year. (*Mr. Joshi.*) The Report on Foreign Currencies.

4249. I understand that, forming as good an estimate as the knowledge at your disposal enables you to make, you are of opinion that there is going to be a general rise in world gold prices in the future; is that a general opinion?—(*Mr. Joshi.*) We cannot give any definite opinion on that. Of course it is simply a question of forecast; it entirely depends on the policies of various countries and the attitude of the United States of America towards the European countries also.

4250. In paragraph 19, you say: "If we turn to the question, has the gold exchange standard during the period that it worked, namely 1900 to 1914, secured stability of exchanges, the answer is simple. Stability of exchange under the gold exchange standard is practicable and can be maintained at any ratio at or above 1s. 4d. so long as India has a favourable balance of trade and so long as the price of silver is below 43d. an ounce. These two conditions were present during the period. When in 1907 one of these conditions was absent the system was on the point of breaking down, and during the War when the second condition was absent it broke down completely. Stability of exchange under the gold exchange standard depends upon conditions which the gold exchange standard itself does not necessarily secure." Are these conditions to which you refer secured under any conceivable currency standard, including that of a full gold standard?—(*Mr. Wadia.*) Of course not. No standard by itself will secure these conditions.

4251. Any system which might be devised, including that of a full gold standard, would be liable to strain, supposing that conditions had become adverse?—(*Mr. Wadia.*) If your question implies that the gold standard will not secure stable exchange I differ from that implication because if you primarily secure stability of internal prices stability of exchange follows as a matter of course. (*Mr. Joshi.*) When the world has got one international standard of value stability in foreign exchange is automatically guaranteed when that standard is adopted by all countries, and though a gold standard does not secure completely an absolute fixity of exchange or stability in prices, still it is the only method that human ingenuity can devise under present circumstances which can secure both these objects.

4252. Taking it under two headings, first of all the heading of balance of trade, let me put my difficulty in apprehending your point of view. Whether it be under a gold exchange standard or under a gold standard, the value of India's internal unit is stabilised in relation to gold. What is there then in this circumstance to which you refer, an alteration in the balance of trade, which inflicts a heavier strain upon the stability of the system whether the system be a gold standard or a gold exchange standard?—(*Mr. Wadia.*) I cannot quite catch your point.

4253. Under either system, a gold standard or a gold exchange standard, what you are maintaining is the stability of the rupee, the gold value of the rupee?—(*Mr. Wadia.*) No, under the gold standard questions as to the stability of the rupee do not arise at all because then the rupee becomes a token coin and our prices will be in gold.

4254. Then we will consider that if we may, in connexion with your proposals for the establishment of a full gold standard. Let us take the second inference, and that is the price of silver. It is necessary to anticipate a little, in order to elucidate this matter by asking you this. I imagine you contemplate that, even after the establishment of a full gold standard, there will be a substantial amount of silver rupees in circulation?—(*Both witnesses.*) Yes.

4255. Because they are necessary for the small transactions of the country?—Yes.

4256. The disadvantage to which a system is liable upon the occurrence of this cirsumstance is that the rise in the price of silver takes the value of the rupee above melting point. Is that not a disadvantage which will have its reactions under a full gold standard?—(*Mr. Wadia.*) No, limitation of supply is quite enough by itself to secure the face value of the token coin. All that we need is limitation of supply.

4257. I understand that, under that system, the value of the rupee will be fixed as a portion of that of the gold unit?—Yes.

4258. If that be so, would it not be that a rise in the value of silver would carry the intrinsic value of the rupee above its token value as a part of the gold unit?—(*Mr. Joshi.*) We are concerned with the immediate problem and at present silver is 32 pence an ounce. There is no possibility for a year or two of its going above 43d. After the introduction of a full and complete gold standard, if it is desired to reduce the weight of the rupee in terms of silver that may be considered in the future but not to-day.

4259. I quite recognise the force of your contention, but if that be so, if the problem does not present itself, it does not serve to discriminate between the relative advantages of the two standards?—(*Mr. Joshi.*) It does.

4260. How can that be if the problem does not arise owing to the improbability of a rise in the price of silver?—(*Mr. Joshi.*) You see the point we are making is that it is not owing to the intrinsic soundness of the gold exchange standard that it secures a stable exchange, but it is simply because the price of silver is much below the face value of the rupee.

4261. My question is a very simple and practical one. Even under the gold exchange standard the price of silver might rise so far as to make it

necessary for you to take measures as regards your token currency. Every other country, even England, did so after the War?—(*Mr. Joshi.*) We also in this country had to do so when the price of silver was above 43 pence an ounce. Measures are to be taken.

4262. How do you propose to deal with a situation under which the price of silver has risen so far as to make it worth while to melt your token coin?—(*Mr. Wadia.*) If silver is the token coin, it is open to the Government to reduce the fineness of the coin or the weight of the coin. (*Mr. Joshi.*) But those are only remote contingencies. That problem does not arise in present circumstances.

4263. In so far as the problem is worth taking into consideration, you are not relieved, by the adoption of a full gold standard, from having under such conditions to substitute some other token currency for your overvalued silver rupees?—There is all the difference between a token coin limited in supply and whose face valuo can be kept up and a token coin whose supply is not limited.

4264. Now I should like your opinion on this point from your wide experience of the psychology and habits of the people. Supposing the rupee has been reduced as you propose to the position of mere small change; supposing that it is necessary, owing to a rise in the price of silver, either to substitute a silver rupee of less content or somo other token currency; supposing also, if I may continue the list of suppositions because it is necessary to make my questions clear, we are in agreement that there must still be a large volume of rupees outstanding; what will be the political and social reactions on the uninstructed public even under those conditions of a reduction in the actual intrinsic value of the rupee. Would it be serious or not?—(*Mr. Joshi.*) I will answer under two heads,—first, that all the suppositions are too remote, suppositions which cannot be supposed under the circumstances in which we are placed, *e.g.*, that the price of silver will go above the price fixed by Government. . . .

4265. I must point out that if that is too remote the whole question is too remote, and there is no need to discriminate between the two systems?—That is the first part of my answer. The second part of the answer is that undoubtedly there will be great reaction in the mind of the people because they are accustomed to the silver rupees, and before any question of reducing the weight or fineness of the rupee is thought of seriously, it ought to be considered from all points of view. As theorists we do not mind reducing its weight; provided it is made a token coin there is no objection in theory, but looking to the habits and sentiments of the people for the time being till they are familiarised with a full gold standard and a gold currency, till that time and during the transitional period the rupee need not be trifled with; there is no necessity to trifle with the rupee. (*Mr. Wadia.*) But I take it the Chairman is not thinking of this transitional period.

4266. In my own mind I was making a contrast between a full gold standard and an exchange standard?—(*Mr. Wadia.*) By the time a full gold standard comes into operation they will have become so used to the new currency that we may expect to see a difference in their attitude with regard to the token money.

4267. I fully apprehend your point of view, that after a sufficient period of getting used to the new conditions you might with safety make such a change, the only question being the adequacy of the intervening period for accustoming the people to the new state of affairs. We come now to your analysis of the imperfections of the gold exchange standard (paragraph 20), one of which we have already dealt with, and we will now deal with the contractibility of the currency under a gold exchange standard. In paragraph 2 of your analysis you refer to the evils of an inelastic currency which are accentuated by a system which leaves the management of currency in the hands of a body which is not in touch with the day to day requirements of the commercial community. Referring again to those hypothetical proposals which I believe you have had an opportunity of considering, would, in your opinion, this obvious disadvantage of the pre-war system be adequately remedied by the transfer of the management and the control of the currency of the country to the same body as that which controls the banking reserves of the country, that is, through a Central Bank?—(*Mr. Wadia.*) Provided two conditions are fulfilled on which we very emphatically lay stress, and these are, that we have an effective gold standard and that the Imperial Bank be considered a national asset with no private interests conflicting with the interests of the country as a whole.

4268. Will you explain a little the bearing of your last answer? When what we are seeking to remedy is the divorcement between the control of the currency reserves of the country and the banking reserves of the country, what difference does it make as regards the alleviation of that evil whether the system actually in operation be an exchange standard or a full gold standard?—(*Mr. Joshi.*) Undoubtedly it would be an improvement upon the existing system. But that would not secure to India what she wants.

4269. I am only dealing at the present time with each evil under its separate heading?—It will be an improvement.

4270. Then at the conclusion of your paragraph No. 2 you say: "There must be something intrinsically wrong with a currency system that permits the bank rate to rise from 4 to 9 per cent. at a time when the country has an outstanding balance of several crores of rupees in her favour from month to month." I should like to direct your attention in that connection to the recent alterations that have been made in India's banking and currency system as regards the issue of emergency currency against bills and ask you to what extent, in your opinion, the inelasticity to which you refer has been remedied by that innovation?—This defect has been removed partially by this innovation. But to remedy this defect completely, unless the country adopts an effective gold standard the provisions for emergency currency will not be sufficient to make the system so elastic and so stable as not to lead to violent fluctuations in future.

4271. As regards this particular provision for the issue of emergency currency against bills of exchange, will you point out what difference it makes to the fundamental system whether it is an exchange standard or a full gold standard?—In a full gold standard people can go to the mint and get as much currency minted as they like. When the country has got a favourable balance it can be liquidated in specie and coin, people can go to the mint and get as much currency as they like.

4272. What would they tender?—They could tender gold.

4273. Just to make that clear, under an exchange standard can they not equally tender foreign exchange and receive internal currency?—(*Mr. Wadia.*) You mean they will receive token money.

4274. They would receive whatever unit of currency the country has?—Under the gold exchange standard they will get silver, notes printed on silver.

4275. Under your system what would they get?—Gold coins or gold notes.

4276. But whether the system was based upon a gold currency or upon an inconvertible internal unit the measure of elasticity would bo the same, would it not?—There is ultimately all the difference in the world between an inconvertible silver rupee and the convertible gold note or coin.

4277. In this connection, referring only to the question of elasticity, I feel that my mind needs to be cleared as to what the essential difference is between the two?—(*Mr. Joshi.*) This statement is made from our experience of the last two or three years. India had an enormous balance in her favour and it was simply the exchange policy of the Government which

kept up the statutory ratio of the rupee at 2s. which was responsible for the import of heavy stocks of gold into this country and at same time for the phenomenal tightness of the money market. Under the operation of a gold standard system open to the free coinage of gold, this gold would have found its place in the vaults of the bank or in the mint and people would have got as much money as they desired.

4278. I think we must distinguish, must we not, in this connection between the regular annual and gradual expansion of the currency which is required by the growth of the trade of the country and the seasonal expansion which is required annually to be followed by a subsequent contraction. I think I could ascertain your views best by asking you whether the arrangements for the seasonal expansion of the currency against bills of exchange at present in force are not equally adaptable, whether the fundamental system of currency be an exchange standard or a full gold system?—Under the gold exchange standard, provision for emergency currency is an improvement; it is an important innovation; under a gold standard it is better.

4279. Continuing your memorandum in paragraph No. 3 you say: "This mechanism for stabilising exchanges can only be effective if there is legal obligation on the Government of India to convert rupees into gold"?—This statement is made to point out that the Indian system was not a complete gold exchange standard.

4280. That will save me troubling you with further questions on that point. That is really only pointing out that the pre-war system was not a gold exchange standard. Now, in paragraph 4, you say that India needs all the gold which she can possibly command for the development of her agriculture and her industries. I am not quite sure that I perfectly appreciate what you have in mind there. Is gold in use as currency available for the development of agriculture and industries?—(*Mr. Wadia.*) What we meant to say was this: under a gold standard all the gold reserves will be economised and centralised, and on the basis of that a credit superstructure may be raised for the benefit of agriculture as well as industries.

4281. Let us agree that in the past all the gold resources of India have not been mobilised centrally and thus made most readily available. What I need to supplement that, in order to compare in my own mind the comparative advantages of an exchange standard and a gold standard, is to see why, under the full gold standard, it is your opinion that you would attain a greater measure of centralisation of gold resources and their mobilisation for purposes of industry in consideration of the fact which would seem to require consideration that, under that standard, you have a proportion of your gold out in circulation, and thus it would seem not available?—The great defect of the gold exchange standard as we have indicated, is the dissipation of India's gold resources from year to year. All the gold that comes here is either hoarded or disappears. Under a full gold standard much of this gold will be centralised for the raising of credit.

4282. Were the possible evil effects to which you refer due or not due rather to a misapprehension of the proper working of a gold exchange standard or were they the results of an intrinsic defect in the standard itself?—(*Mr. Wadia.*) People have no confidence that the gold, once they part with it, will come back to them, and this is one of the main psychological springs of the present habit of hoarding.

4283. That I understand to be one of the bases of your recommendations?—(*Mr. Joshi.*) May I supplement that answer? It was partially due to the intrinsic defect of the gold exchange standard system itself, because so far as India is concerned it necessitated the location of 40 million pounds in London. Under a full-fledged gold standard there is no necessity for locking up all India's gold reserves in London. That is one defect; there is another; that so far as the people are concerned, they are not the only hoarders; the Government has become one kind of hoarder, and the people another kind of hoarder. So India's gold reserves as well as resources are not utilised to the fullest extent to which they ought to be utilised.

4284. That is the point which really comes in your next sentence, where you say "This dissipation of the gold resources is brought about in a two-fold manner: firstly, nearly £60,000,000 worth of her gold including £40,000,000 in the gold standard reserve is locked up in London for the stabilisation of her exchanges." When we are considering the availability of gold for the purpose of development of agriculture and industries, if it is to be locked up does it make any fundamental difference whether it is locked up in one place or another?—(*Mr. Wadia.*) If it is used or locked up in a central bank which acts both for the purpose of the paper currency and for banking purposes, it means that all this gold will be the basis on which the bank will extend its credit whereas at present nothing of the kind can happen. That is one great advantage, that by the centralisation of our gold resources and by placing them in a national bank, we shall be able to make more use of these gold resources for our national purposes.

4285. If you have assets in the paper currency reserve to protect the internal convertibility of notes and to maintain the exchange value of internal currency, then they are counterbalanced by liabilities upon the other side of the balance sheet, are they not? If that is so, how could they be available for further purposes of credit?—(*Mr. Joshi.*) May I answer that question? There are really two answers: first so far as the £60 millions are concerned, these reserves are locked up to-day in London simply because of the existence of the gold exchange standard. Now, we make the point that had it not been for the operation of the gold exchange standard this £60 millions would have been in the central bank in India, that is to say, the State Bank. That is one thing; in another way the large stocks of gold which are imported into this country now are hoarded by the people, and they will be available to the banks; and upon these gold reserves and resources a credit superstructure can be raised up to help industries and agriculture.

4286. Under a full gold standard, as I understand it, we recognise that a paper currency reserve must still be maintained?—We endorse your view on that point.

4287. And this reserve will have to bear the weight of maintaining the external value of the currency?—It will be kept in certain proportion.

4288. Do you think it will be possible to make any great reduction in that proportion in view of the gold in circulation?—That is not a question of the paper currency reserve. We do not trifle with the paper currency reserve; we are equally emphatic as you are in maintaining a paper currency reserve.

4289. May I direct your attention, in order that we may proceed step by step, to the end of my question: that is, agreeing on that (there can be no two opinions about that of course), are you or are you not of opinion that you can make a substantial economy of the reserves which you would have to keep in consideration of the gold which you have in circulation?—Exactly; that is the point we are making, that under the gold exchange standard it is not possible for us to make economy in the use of gold, and we believe that under a gold standard there is a greater opportunity to make greater economy of the use of gold.

4290. As I understand it, your opinion is that that economy is effected by reckoning that gold in circulation is available as part of your reserves?—That point does not arise. All that we mean to say is that to-day the large stocks of gold which are imported into the country are put out of use. Under a full gold standard the people will not hoard gold, and these will be deposited with the bank, and on the strength of those deposits the bank can lend out credit either to agriculture or industries. At the same time there will be no necessity for locating £60 millions in London.

4291. That is proceeding upon the assumption that the adoption of gold currency and a full gold standard will remedy the hoarding practice of the people?—Decidedly; and there is just one more point; the adoption of an effective gold standard does not necessarily mean the circulation of a large number of gold coins.

4292. Let me examine just what your anticipations are about that. Do you, for instance, consider that the introduction of your proposals would produce an immediate cessation of the hoarding habits of the people, and that in consequence no gold will be required at all either in currency or in substitution for hoards?—(*Mr. Wadia.*) No, not necessarily.

4293. So I imagined. You look upon it as a circumstance which will produce a gradual change?—Yes.

4294. Do you or do you not consider it is probable that the result of making gold freely available would, at first at any rate and during the transition period, result in a further substantial increase in the demand for gold both for currency and for hoards?—I don't think I am prepared to give any definite reply.

4295. I beg your pardon, I misunderstood your gesture. It is not that you differ from the suggestion, but that you cannot make any prophecy. Nevertheless, it is a very relevant matter for consideration, as regards the advisability of any practical course, as to whether this is going to result in an immediate demand?—(*Mr. Joshi.*) There may be some demand immediately for more use of gold, but at the same time if simultaneous steps are taken to alter the system, there is also the possibility of finding more gold offered to the mint. To-day persons have got gold not because they are genuine hoarders but because of the uncertainty regarding the currency policy of the Government of India. And I may go to the length of anticipating further tender of gold by the people to the Government.

4296. That is the ultimate state of affairs at which I understand you expect to arrive, but my present question is directed to trying to ascertain what is going to happen immediately?—Even immediately; this phenomenon may arise.

4297. Then you are not unwilling to contemplate the probability that there might be, on balance, an actual return of gold as the result of the introduction of your proposal?—There is a possibility in both directions.

4298. And as between the two possibilities you agree, no doubt, there is a very serious practical matter for consideration in contemplating what course should be taken. Do not you think it would be possible to decide whether it is likely to result in an increase or a decrease in the demand for gold?—But we do not contemplate the conversion of the rupees into gold immediately. We are suggesting permissive measures which are to be adopted in future.

4299. Let us postpone that question for the moment, until we come to the actual measures. Continuing to ask my elucidatory questions upon your analysis of the question, and passing to paragraph 22 you say:—"In normal years she has to receive and not pay gold. Even if there is an adverse balance, it can be adjusted by the operation of the bank rate or by the flotation of a temporary loan abroad." Now, the occurrence of an adverse balance would mean, in fact, a bad year, during which conditions were adverse from the Indian point of view, and, if those adverse conditions were sufficiently adverse, it might amount even to a crisis in India's financial affairs. Is a period of crisis of this sort, or at any rate an adverse period, a season at which it is prudent to leave oneself with the task of the flotation of loans abroad as a method for dealing with and rectifying the situation? Ought one to adopt a system where one has to borrow at times of crisis, or is there not something imprudent about that?—(*Mr. Joshi.*) As a matter of fact, during a crisis it is only one of the ways for bringing out equilibrium, and if the crisis is of a local nature, there is no difficulty in raising a foreign loan.

4300. Critical times, one has to recognise, affect the national credit, and a prudent Government does not put itself, does it, in the position of having to borrow at a time when, *ex hypothesi*, its credit is bad?—(*Mr. Joshi.*) But so far as my knowledge goes, there is no Government in the world which takes the obligation to provide for adverse circumstances. It is the business of the business community and the banks to cover up all transactions, and I do not see any Government in the world which undertakes such an obligation to provide for adverse circumstances.

4301. That is rather a wider answer than an answer to my particular question. I had no doubt in my own mind that I stated the question in a manner in which you would probably agree with it?—We agree with it. There are cases in which it is imprudent to resort to foreign loans.

4302. You refer to the circumstance that the operation of an effective discount rate under the gold standard with a centralised reserve is to be taken into account as a method of remedying any possible upset in the balance of trade. It would be of great interest, I think, if I might ask you here a question on which the Commission needs enlightenment, and that is as to what extent the discount rate in India, with its admittedly undeveloped banking system, is an effective method for remedying temporary maladjustment in the balance of trade. I think you will agree that in a country like Great Britain, with its highly perfected banking system, subject to such abnormal periods as that of the war, it is an effective means of restoring the balance. How far can we contemplate it as an effective instrument for that purpose in the Indian economy?—(*Mr. Joshi.*) For the time being it will not be as effective as it is in Great Britain. But we contemplate that in time under the gold standard system it will be gradually made as effective as it is in other countries.

4303. That must be, as I understand it, only in proportion to the development of the banking system in India?—(*Mr. Wadia.*) Yes.

4304. What is your opinion, Professor, as to the rate of progress which you think might be anticipated in India as regards the habits of the people and the use of banks? Is it a thing in which we can look for a swift and speedy growth?—Well, there is every possibility of banking becoming more popular if effective methods are taken for bringing banking within the reach of the smaller towns.

4305. But it is not going to be the growth of a day?—No. But even the use of cheques in the vernacular may give such a powerful impetus to banking habits that you can say nothing as regards the possibilities of banking in the future.

4306. It is a matter, of course, in which one is peculiarly in need of enlightenment as to the extent to which it is possible to look forward to improvement. It is a matter in which, I take it, we are peculiarly in need of enlightenment as to the extent to which it is possible to foresee in the near future the education of the cultivator in the habit of keeping his savings in the bank and using a cheque to draw upon them?—(*Mr. Wadia.*) The Indian cultivator is an exceedingly intelligent man. He can be easily made to learn the use of cheques if only facilities are brought within his reach. We have full confidence in the general intelligence of the average Indian cultivator.

4307. This really raises the question (which is perhaps a little foreign to the proceedings of the moment) of the methods for increasing banking facilities and encouraging confidence in the stability of banks?—(*Mr. Joshi.*) Yes, Sir. As a matter of fact, we contemplate all these measures together, as part and parcel of one complete scheme. We go further and say banking includes monetary progress and savings.

4308. In paragraph 27 of your memorandum continuing our present line of inquiry, you caused some temporary doubt in my mind by your reference to the circumstance that the best interests of India require a currency system that the rest of the world has already accepted, a gold standard pure and simple. In what sense can it be said that the rest of the world has accepted a gold standard pure and simple? A characteristic feature of the gold standard which we are considering is a gold currency. Is that the case with regard to the rest of the world?—By a gold standard pure and simple we mean not the actual extensive use of gold in currency but a system under which the media of exchange can be ultimately converted into gold.

4309. For international payments?—For international payments and also for internal payments.

4310. If it is converted into gold for international payments that is the gold exchange standard; but if it is to be converted into gold for internal payments, in what sense can the rest of the world be said to have accepted that currency system? Is it not rather a feature of modern times that the reverse is the case with the nations of Europe?—You are talking of post-war conditions?

4311. If you please. I am talking of the present? —That is because there are a large number of countries in Europe which cannot afford the gold for internal circulation—quite apart from the issue of economising the use of gold.

4312. That really brings us back to your original answer, which we fully comprehend, that the rest of the world would adopt a gold currency if they could have it?—Well, we have learned to economise the use of gold even under a gold standard and the war experience and post-war experience has been increasingly in that direction.

4313. Perhaps you will recognise also that that is a point of view which might not meet with acceptance amongst many authorities in the countries of western Europe, who would perhaps be rather inclined to contend that they look upon the exchange standard which they have adopted as the more scientific standard, and one which involved no implication that there was any intention whatever of returning to a gold currency?—You cannot get behind the simple fact that the more confidence people have in getting their media of exchange ultimately converted into gold the greater will be the ease and readiness with which they will use those substitutes.

4314. We are coming to rather closer quarters now with your proposals for the actual attainment of the full gold standard. You open the matter by your reference in paragraph 28 to the circumstance that India, like the United States of America, can demand the import of enormous quantities of the precious metals. We have referred before to the circumstance that the apparent favourable balance of trade is made up partly of invisible imports, of home charges, and partly of the present actual imports of gold. Will you explain to me by what methods India can enforce her demand for any further amounts of gold required in excess of the present imports?—(*Mr. Joshi.*) Our past experience during the last 20 years, if you study the statistics of the imports, show that much more gold will not be required for the successful working of the gold standard, and we anticipate that under the gold standard this gold will not be put to any unproductive uses and will be available for purposes of currency and in that sense we make the statement that India can command gold.

4315. I understand then that, for the purpose of introducing a gold currency, you think all that would be required would be that India should continue to import the gold which she has been importing lately and that these quantities would then become available for currency?—In future, by the utilization of the present reserves, supplemented by future imports and also supplemented by the existing stocks which may be available.

4316. I do not quite follow what you mean by the utilization of the present reserves. In what manner would you utilize these?—In paragraph 34 we come to concrete proposals. That proposal has got a reference to the proposal which is submitted to us for a gold standard and we are discussing it in connection with that.

4317. I think I can put the point in this way. If the gold which is now imported is being used for some purposes for which it is required, is there any reason to suppose that it will not continue to be required for those purposes and would become available for some other purposes?—We do not subscribe to the view that the whole quantity of gold imported is used for non-monetary purposes. At present it is used that way, good deal of it is hoarded.

4318. It cannot be used for monetary purposes at present because of the 2s. ratio. I should like just to understand why it is you think that it would not continue to be used for the purposes for which it is now being used, and, if so, if you could assist us by telling us in what manner it would become available as currency?—The habit of hoarding has grown during recent years simply because of the defective currency system. Another thing is that we anticipate a good deal of education among the people because we are expecting another instalment of political reforms. That will facilitate the education of the people in banking facilities and they will be prepared to part with their gold which may then be put to productive uses instead of being hoarded.

4319. If they need the gold at present to hoard and if they cease to hoard gold, will they not need something else to hoard?—They do not want to hoard, Indians do not want to hoard it; if they do so, it is because there is no other way. (*Mr. Wadia.*) I think that is too large an assumption that all the gold imported into the country is required for non-monetary purposes.

4320. At present it is impossible to make any other assumption?—Much of it may be lying idle. With a gold mint and a gold standard, a considerable portion of it may come back.

4321. Now let me come to the actual practical steps which you desire to recommend. Your first proposal is that "no fresh additions to the currency to be made in rupees or rupee notes; all such additions to be in the form of gold notes or gold certificates. Thus no immediate additions to the currency in the shape of gold coins will be necessary nor will it be necessary to convert the existing stock of rupees into gold." Is that qualified by any provisions as to subsequent action, or is that only an intermediate stage?—That is only an intermediate stage.

4322. Then your second proposal is that "so long as this country has not built up adequate gold reserves . . . . it is not necessary to make the existing token currency convertible into gold for internal purposes." That implies, as I understand, that as soon as you have built up adequate gold reserves, you would make the existing token currency convertible into gold for internal purposes?—Yes.

4323. So that you are contemplating some future period at which rupees will become convertible into gold. Do you contemplate as a concomitant of that step that the rupee should cease to be legal tender except in small amounts?—Well ultimately if the rupee is to be made a token coin, then a legal tender limit must be fixed.

4324. In substance, the scheme which you contemplate bears a resemblance in material matters to that scheme which has been outlined in this memorandum* which has been placed before you?—In studying this memorandum we find that there are two or three omissions to which we may draw attention. There is no reference in this memorandum under the gold standard to the establishment of a mint. Then there is no reference also to the fact that the Government should undertake not to coin any more rupees, and there is also no reference to the fact that if the Imperial Bank of India is to be made the central reserve, is to be entrusted with the central reserve and also entrusted with the management of the paper currency, it should be done only after making it a national institution.

* See Appendix 2.

4325. There should be some alteration in the constitution?—Yes.

4326. With these omissions then, as I have been able to follow your proposals, as regards the general principle your proposals are really substantially the same as those in this scheme outlined in this memorandum?—Yes.

4327. I have only one or two general questions to ask you upon some important aspects of that subject. Have you been able to make any estimate of the additional amount of gold, additional that is to the amounts which come here, which it would be necessary to draw to India in order to carry out this scheme, including the acceptance of the obligation to give gold against outstanding rupees?—We have got here some details of the way in which complete conversion can ultimately be worked out, and if you will permit us to enter into those details, we want to show that even to-day it is possible to have complete conversion of silver currency into a full gold currency; even to-day it is possible to do that; but we do not wish to advocate that for obvious reasons. What we mean to say is that we have got reserves enough to-day to convert our present currency into a full gold currency.

4328. As this is the question to which I was directing your attention, we might have the benefit of your calculations?—Well we have figures of the total circulation of rupees and notes for 1919, approximate, 362 crores, going back to 1919, rupees and notes, silver and notes.

4329. (*Sir Alexander Murray.*) Active circulation? —Yes.

4330. (*Chairman.*) How much of that is rupee coin and how much is rupee notes?—That we cannot say; we have got the total figure here. Then 80 crores have been added between 1919 and 1924—that we have gathered from the tables that you have supplied.

4331. That is rupees and notes?—Yes. So in all our total circulation to-day is 442 crores; roughly, we say 450 crores. Out of these, 190 crores are in notes and 260 crores in rupees. Well, as against that we have 22 million pounds of gold at 10 to 1, and 23 million of securities in the paper currency reserve; in all 45 million in the paper currency reserve; that is equivalent to 67 crores at 15 to 1. Then we have in the paper currency reserve 58 crores of Government of India securities to-day. Now we take it that it is only a question of renaming these securities, if you are converting them into gold securities, once you have a gold standard. You have 58 crores of Government of India securities and if we have a gold standard and all our reckonings are to be in gold then we can republish those securities and call them so many crores of gold mohurs.

4332. You can call them anything which you choose to call them: that will not alter their nature?—If our standard of money is to be changed, the denomination of our securities will have to be changed. If they are rupee securities so far, when you have a gold standard they will become gold mohur securities; we will revalue them in gold.

4333. The nature of your securities cannot alter?—We are simply renaming them.

4334. So we have in that way 67 crores of gold and sterling and 58 crores of debt from the Government of India?—Yes.

4335. That makes 125 crores converted into gold. The total note circulation is 190 crores. If you deduct from that the 125 which we can convert immediately into gold, you have left over 65 crores. Assuming the conversion of part of the note issue into gold, assuming that the notes are presented for gold, you are calculating that you could convert, if you are required to do so, 125 crores of your 190 crores into gold. It is not still quite clear where the gold comes from which enters in as part of the 58 crores of Government securities?—These are Government of India securities and they are at present defined as rupee securities because our standard is the rupee. If our standard is henceforward to be the gold mohur, then those securities have to be revalued in gold, renamed in gold.

4336. My difficulty is this. Here you have your 22 millions of actual gold coin, which you can use. Here you have your 23 millions of sterling securities, and you can sell them, and I hope you will realise good prices. But what about the 58 crores of debt from the Government of India? Where is the actual gold to come from there?—(*Mr. Joshi.*) It is not to be paid; it is the public debt. The holders of the rupee securities will henceforth be holders of mohur securities; that is all. Instead of one man holding Rs. 15, as a holder of the debt from the Government, he will be the holder of one mohur security.

4337. The basis of our enquiry at present is to try and find out where you would get the gold metal from?—(*Mr. Wadia.*) We are trying to point out to you that the whole conversion can take place. Then, we have 260 crores of rupees in circulation. We say roughly that 200 crores out of this will be actually required as token money. It is a rough estimate. We need not convert 200 crores. That leaves us 60 crores of rupees to be converted, plus the 65 crores of rupee notes.

4338. What is the 65?—190-125. So in all, 125 crores of rupees and notes will have to be converted.

4339. That is, you are allowing for the continuance of no notes in circulation at all?—That is what we have provided for, when we say that these 58 crores of rupees securities can be converted into mohur securities on the basis of which a certain amount of note circulation may be fiduciary. That is what we have in mind.

4340. Now I follow you; a fiduciary issue of 58 crores?—Then we require to convert 125 crores of rupees and notes.

4341. That leaves only 58 crores of note circulation outstanding?—As against that there will be the banking securities, the mohur securities. Well then, we require to convert 125 crores. As against that, we have 40 million pounds of the gold standard reserve and 90 crores of rupees in the paper currency reserve and, in addition, 60 crores of rupees in actual circulation; so that we have in all 40 million pounds, that is, 60 crores, plus 90 crores in the paper currency reserve, plus 60 crores in actual circulation. Thus to convert 125 crores into gold, we have 60 plus 90 plus 60, that is 210 crores.

4342. Such a calculation, of course, is not very simple to follow by word of mouth. Perhaps we may have the benefit of a note from you which will give us an opportunity of considering it in detail?—We can write out a note.* We only point out that we have reserves enough for a complete and immediate conversion of the gold exchange standard into gold standard.

4343. That is the deduction which you would draw from the calculation which you have just handed to us. The basis of that calculation we shall be able to judge better when we have considered it at leisure with figures in front of us. There is only one further question which I want to ask you, taking full advantage of your presence here to-day, and that is this: You say in No. (4) (paragraph 34): "The relation of the rupee to the standard coin to be defined by law, preferably as 15 to 1." Let me ascertain, in the first place, whether this is to be an immediate measure or whether this is to be a part of the further action to be taken on the accumulation of sufficient reserves?—As an immediate measure.

4344. What provision do you make for the maintenance of any ratio which is to be immediately fixed in your scheme?—An undertaking on the part of the Government not to coin any more rupees.

4345. You suggest no obligation to buy or sell either gold or foreign exchange, in order to maintain the ratio of the rupee?—No. (*Mr. Joshi.*) There will be no question of the ratio of the rupee, because our standard will be gold standard.

4346. It will not be a gold standard until you get on to the final stage. Now I want to contemplate the immediate action to be taken while you are

* See Appendix 21.

awaiting the accumulation of a reserve sufficient for the final stage. I understand you to say the ratio should be fixed at 15 to 1. It occurs to me to ask what mechanism you recommend in order to maintain that ratio, and you say there should be the provision that no further rupees should be coined? (*Mr. Wadia.*) What do you imply by "maintaining the rate"; is it for internal purpose or for external purpose?

4347. External purposes need not concern us?—For external purposes the question need not arise, because the exchanges may be left to themselves with specie points.

4348. I am not sure I have perfectly apprehended your last answer. The unit is to be the gold mohur; that is, you fix the gold mohur as identical with the sovereign, and you say that the ratio would be 15 to 1. But it is not enough to say what a thing is to be. What means are you going to take of directing the supply or the demand for conversion of internal currency into external in order to secure the maintenance of the ratio which you have fixed? Do you popose that there should be a legal obligation in your transition period upon any currency authority to buy and sell at gold points corresponding to this ratio?—(*Mr. Joshi.*) Yes; the Government shall undertake the obligation to give for external purposes gold in the form of bars, say, of 100 oz.

4349. And that is to be immediately fixed at 15 to 1?—Yes.

4350. Now we come to one question which I can put quite generally. Why do you prefer the ratio of 15 to 1 to the rate which you find existing at the present time in the exchange market, that is, the 1s. 6d. rate?—(*Mr. Wadia.*) The present rate has been the result of Government policy during the last year as against the 1s. 4d. rate, which has become almost sanctified by custom. (*Mr. Joshi.*) 1s. 6d. rate is only the result during the last 12 months; and as against that we have got the experience of nearly 30 years and in currency matters public confidence ought to be considered very carefully; and people are accustomed to that relation. (*Mr. Wadia.*) In theory, it does not matter. As a matter of pure theory, if the rupee is a token coin, it does not matter what ratio there exists between the token coin and the standard coin. But in practice the people have been so long accustomed to this 1s. 4d. or 15 to 1 rate that it is not desirable to change except for very grave and serious reasons.

4351. If I follow your contention it is this. Supposing you were at once to introduce a gold currency and to adopt the gold mohur, making it the standard coin of the country, the present rate of exchange in the market being 1s. 6d., it will be perfectly indifferent whether, upon the introduction of the gold mohur, you fix the ratio of the rupee as 15 or as 13⅓ to the mohur?—We have answered that question of gold exchange that two conditions are necessary to maintain the ratio.

4352. Indifferent as regards any relations between debtor and creditor, buyer and seller, and so on in the country?—(*Mr. Joshi.*) We are fully conscious about the disturbances which may result from this; but those disturbances may be tolerated in view of the reform and the overhauling of the whole currency system in India.

4353. That raises the question, which I have no doubt you have considered, whether prices in the country have settled down at this current rate of 1s. 6d., or whether they have not settled down at that rate?—(*Mr. Wadia.*) If by prices having been settled down you refer to the prices of last year, undoubtedly that statement is true. But India has undergone so many sacrifices with regard to her price level in the past that we are quite prepared to face another disturbance of a temporary character if we can get what we want.

4354. To make it perfectly clear, I understand it is your opinion that there is greater equity in the ratio of 15 to 1 than in any other ratio?—Yes.

4355. To weigh that opinion, we must know as to whose equity it is, whose right, as it were, whose interests have got to be vindicated by the 15 to 1 ratio rather than any other ratio? (*Mr. Joshi.*) It is equitable on the whole and conducive to the welfare of all sections of the community.

4356. That, of course, is a very inclusive answer. Might I suggest to you that the only persons whose interests can be affected by a divergence from the old 15 to 1 ratio are parties to contracts which were made under the 15 to 1 ratio and which are still in existence at the present time? Are there any other persons, in addition to that class of parties to such contracts, who have got an equitable right to the ratio of 15 to 1?—By allowing the ratio to settle down at 1s. 4d. may benefit all the sections of the community, we should not forget that during the transitory period India is an exporter and she exports more than she imports and if the ratio at 1s. 4d. is fixed the country as a whole will benefit. Undoubtedly there will be parties which will be at a loss, as, for example, Government.

4357. I gather from your last reply that the opinion you express is that the interests of India are better served, as between two stable ratios, say 2s. or 1s. 4d., by the lower ratio rather than the higher?—(*Mr. Wadia.*) There is no question of the interests of India being served by a lower ratio, because that brings in the question of the gold exchange standard. As soon as the rupee becomes a token coin there is no question of that kind arising.

4358. I think we have already established it as your opinion that the period of transition, from whatever rate rules on a given day to some other ratio, involves a disturbance?—Yes.

4359. I may take it then, to conclude my questions on this point, that you are of opinion that, whatever disturbances in prices, in wages, or in the relative burden of contracts are involved in a transition from the existing ratio, which is about 18d., to some other ratio such as that which you prefer, are not to be considered against the equitable rights which are involved in the restoration of the 15 to 1 ratio?—Yes.

4360. One final question. In this matter the past is not a record of a stable 1s. 4d. ratio followed by a transition to 1s. 6d. We are looking back across a period during which the ratio has violently fluctuated?—Yes; as the foreign exchanges of the European countries fluctuated.

4361. In view of the complete upsetting of all such rights and equities as those to which you have referred and the violent fluctuations during that period, do you think that the difference between 1s. 4d. and 1s. 6d. is a matter for substantial consideration?—Yes, it is.

4362. (*Chairman.*) That finishes the questions I wanted to ask. There are many other matters that might be dealt with; but we have to recognise that this is an almost illimitable subject with many branching aspects.

4363. (*Sir Reginald Mant.*) Professor, you said just now that you would return to the ratio of 15 rupees to the pound, because the people had been accustomed to it for a certain number of years. What exactly do you mean by that? Do you mean that the common people are in the habit of thinking of the rupee as one-fifteenth of a sovereign?—(*Mr. Wadia.*) All those who are interested in the exchange.

4364. But the great mass of the people are not interested in the exchange, though they are largely affected by it; and I want to know in what way, as you say, they are accustomed to this ratio, and therefore it is right to return to it. You are aware, I think, that gold is circulated only to a very limited extent over limited areas and over short periods of time. What percentage would you say of the people of Bengal have ever seen a gold sovereign or a gold mohur?—(*Mr. Joshi.*) But on the whole people are familiar with the phenomenon that fifteen rupees can be got for a mohur, and in that sense we mean people are familiar with these relations.

4365. But are they familiar with it? Does the average ryot believe that he could get a gold mohur for fifteen rupees?—Because incomes are so low here. That does not mean people are not familiar with the fact. (*Mr. Wadia.*) In the Punjab he does.

4366. In the Punjab he may, but I ask you what percentage of the people in Bengal have ever seen a gold coin?—(*Mr. Joshi.*) From that point of view 90 per cent. of the people of India, because their incomes are so low, have not seen gold mohurs.

4367. Then how does the argument that they are accustomed to this ratio prevail?—(*Mr. Joshi.*) Because they know.

4368. (*Sir Maneckji Dadabhoy.*) Are you in a position to throw any light on what it will cost the country to go in for this complete conversion?—(*Mr. Wadia.*) Those are the very figures that we have brought up before.

4369. The actual cost to the country?—(*Both Witnesses.*) There will be no cost.

4370. In this experiment there will be no actual cost incurred; am I to understand that?—(*Mr. Joshi.*) Yes. (*Mr. Wadia.*) Except such loss or such cost as may result; it is not a real loss, but a loss on paper from the conversion of 210 crores of rupees into gold.

4371. So it would only represent a paper loss in your opinion?—(*Mr. Wadia.*) Yes, it comes to that. All those are the assets of the Government of India.

4372. (*Sir Henry Strakosch.*) There are a few questions I would like to ask you. I understood you to say, Professor, that for the last 80 years gold prices had been rising. I have before me a statement which can be verified which shows that gold prices have fallen steadily from about the year 1873 to about 1895?—(*Mr. Wadia.*) Yes.

4373. From that stage onwards they have steadily risen?—(*Mr. Wadia.*) That is why I said judging from the trend of gold prices as a whole.

4374. But we have the period of 1895 onwards where gold prices have risen steadily by a matter of 25 or 30 per cent., whereas they had fallen by about the same percentage, if not more, from the year 1873 to 1895?—(*Mr. Joshi.*) To that extent we qualify our statement.

4375. Then I have another question. You said that one of the disadvantages of a gold exchange standard is that in spite of a favourable balance of trade the country may at certain times be inconvenienced by exceptionally high money rates. You ascribe it, I believe, to the gold exchange standard?—(*Mr. Joshi.*) As it has operated during the last three years in particular.

4376. That, you think, would be remedied by the introduction of a gold standard?—Yes.

4377. Well, you have no doubt followed very closely the experience of other countries, including the United States, and you will probably remember that in spite of a full gold standard being installed in the country it nevertheless went through very severe money crises in spite of the fact that they have had a very substantial balance of exports over imports. I need only refer you to the crisis in 1907 and in earlier years when, as I say, they had a heavy balance in their favour, a complete gold standard installed, and yet suffered money crises with very heavy rates of interest?—(*Mr. Joshi.*) That phenomenon may be repeated in India.

4378. I understood you to say that in your opinion an effective gold standard would remedy that?—(*Mr. Joshi.*) It is a better system than a gold exchange standard, and it would provide the country with a system of currency which can meet the crises in a better way than a gold exchange standard.

4379. But I have endeavoured to show you that with such a currency the United States were subject to enormous crises and very frequent crises; so actual experience does not support your contention?—(*Mr. Joshi.*) Well, we are all fallible human beings, and as yet we have not contrived a perfect system of currency. (*Mr. Wadia.*) If I may be frank, the present scarcity of money as indicated by high money rates, I mean by the rates during the last two or three years, we believe has been largely due to the policy of exchange at 1s. 6d., and we say under a gold standard there will be no more temptations before a human Government to manipulate exchanges and bring about an artificial dearth of money.

4380. May I put this to you? Can it be concluded from actual experience and also from the theory of the thing that the trouble of exceptionally high money rates, especially in times of great prosperity, is due to a faulty banking system, and that, when once your banking system is properly organised, that drawback will disappear?—(*Mr. Wadia.*) That is quite possible.

4381. And that that applies not merely under a full gold standard but also under a gold exchange standard?—(*Mr. Joshi.*) But that only strengthens our position that under the gold exchange standard a developed banking system will be a very good feature, but under an effective gold standard it will be a better provision.

4382. (*Sir Henry Strakosch.*) Thank you; I do not think we need discuss that further. I only wanted to make these two points clear.

4383. (*Chairman.*) On behalf of my colleagues I thank you for your very full and helpful assistance this afternoon.—(*Mr. Wadia.*) I take it that we have the permission of the Commission to publish either part or the whole of our memorandum?

4384. (*Chairman.*) The Commission does not make any objection to the publication of the memoranda of witnesses, although our own proceedings at the Commission will only be published with the report of the Commission.

(*The witnesses withdrew.*)

THIRTEENTH DAY.

Thursday, December 10th, 1925.

Present:

The Right Hon. EDWARD HILTON YOUNG, P.C., D.S.O., D.S.C., M.P. (*Chairman*).

Sir Rajendranath Mookerjee, K.C.I.E., K.C.V.O.
Sir Norcot Hastings Yeeles Warren, K.C.I.E.
Sir Reginald Mant, K.C.I.E., C.S.I.
Sir Maneckji Byramji Dadabhoy, K.C.I.E.
Sir Henry Strakosch, K.B.E.
Sir Alexander Robertson Murray, C.B.E.
Sir Purshotamdas Thakurdas, C.I.E., M.B.E., M.L.A.
Professor Jahangir Cooverjee Coyajee.
Mr. William Edward Preston.

Mr. G. H. Baxter (*Joint Secretary*).

Mr. B. F. Madon and Mr. Lalji Naranji, with Mr. Mehta as Secretary, representing the Indian Merchants' Chamber, called and examined.

4385. (*Chairman.*) Mr. Madon, you come to-day to represent the Indian Merchants' Chamber?—I come with Mr. Lalji Naranji, one of our past Presidents; I happen to be the Vice-President at present.

4386. With you there is Mr. Mehta, the Secretary of your Association?—Yes.

4387. The Indian Merchants' Chamber has been good enough to provide us with a memorandum* setting forth their views, which will save us much time and discussion. I need only observe that the first portion of the memorandum deals with the constitution of the Commission. As notified by correspondence, that could not be accepted in evidence by the Commission or indeed appear on their records.—Quite, Sir.

4388. I will turn then, if I may, to the subsequent portion of your memorandum and I desire to ask you a few questions. Shall I direct them in the first place to Mr. Madon or to Mr. Lalji Naranji?—Any way you prefer. Mr. Lalji would like that I should answer and if we have anything on which we wish to consult each other, you will I hope permit us to do so.

4389. For your convenience I shall address my questions in the first place to Mr. Madon. I understand that the proposals set out in your memorandum may be summarised as follows: that there should be free minting of gold into sovereigns or mohurs; that a ratio should be established to the gold mohur of 15 to 1; that the rupee should continue full legal tender as at present, but that no further rupees should be coined; that notes should be encashed into gold or rupees at the option of the currency authorities; that no currency should be issued in future against anything but gold; and that the charge of the currency and the note issue should be handed over to the Imperial Bank of India, which should also conduct the remittance operations of the Government. That, I think, gives an outline of the proposals in your memorandum?—Yes, Sir; that is quite correct.

4390. Let me ask you one explanatory question. You propose that a part of the gold standard reserve should be transferred to the paper currency reserve and that it should be given a larger backing of gold, and that the remainder should be held in reserve to support the gold standard system?—Yes.

4391. What do you propose should be the arrangement as to the management of that remainder of the reserve?—Our Chamber would prefer the whole management of every kind of reserve to be in the hands of the Imperial Bank of India in the future, of course under such regulations and safeguards as the Government may think necessary to provide.

4392. In this connection the first question I should like to ask you will raise rather a new aspect as regards a question we have already had the advantage of asking you in another connection, and that is as to the position of the Imperial Bank under this proposed re-arrangement of control. You refer in your memorandum to the safeguards required and to the development of the Imperial Bank into a true central bank. Would you assist the Commission by amplifying what you have in your mind in that regard?—Well, Sir, what my Chamber principally have in mind is that if the currency department is handled by the Imperial Bank and regulations are laid down by statute as to how the various reserves are to be treated or dealt with, then there is no danger of these regulations being temporarily set aside as there has been in the past when the management has been in the hands of the Government, because the Imperial Bank would have to conform to the regulations laid down and if there has to be any setting aside of such regulations or some difficult situation that requires to be tided over, then it is not the Imperial Bank that could do anything of its free will, but it is for the Government to say that it has got to be done and that the Imperial Bank should do it; and that is what will in the opinion of my Chamber provide for the avoidance of manipulations for the normal period, if I may put it like that; when there is some abnormal situation like a big war or something of that kind going on, then most probably the Government will have to take some abnormal action; but it will not be the Imperial Bank that could do it of its own free will; it will have to follow the regulations and it will be for the Governor General in Council or whatever the authority may be ultimately governing the country to take the necessary action.

4393. Would you briefly outline the nature of the regulations to which you are referring?—The regulations have not been considered in detail and laid down by my Chamber.

4394. My question was rather not so much what the regulations would be as the sort of subject they would deal with?—Put that way, our feeling was that if the Imperial Bank took over the currency department as it now exists, and with the automatic movement of gold in and out at such ratio as is adopted by law for the standard unit, the Imperial Bank would have as the future currency department to simply carry out that work, to give out gold and take in local currency, or take gold and give out local currency at the rates provided by law; and there would be no discretion whatsoever necessary. So my Chamber when they considered this question, were of opinion that there would not be any very radical changes necessary. What will happen is that the agency will be the Imperial Bank carrying out the work of the currency department as a sort of agent of the Government and it might be remunerated by such reasonable sums as the Government may think necessary for the work that it does and the responsibility that it undertakes.

* See Appendix 22.

4395. Do you or do you not contemplate that the note issue should become the notes of the Imperial Bank or that they should remain the notes of the Government?—That point has not been categorically considered; but as far as I could gather the views of my Chamber would be that no change is necessary; the notes may continue as they are, notes of the Government of India, and managed by the Imperial Bank as agent for the Government of India.

4396. If the notes remain the notes of the Government of India, that means that the liability in respect of them is ultimately the liability of the Government of India; and that means also, does it not, that the assets against those liabilities, which are the reserves, must remain the assets of the Government of India?—I would put it somewhat differently; I would not say assets of the Government of India but assets of the currency department or the note issue department. Of course if such assets as that department holds fail, then ultimately the liability to preserve the value of the country's currency will remain the liability of the Government as in every other country.

4397. You agree that where the liabilities are, there must the assets be also? You could not say that the liability in respect of the notes was a liability of the currency department only, could you? It must be the liability of the Government?—I hope that follows from the way that we put it, that the Imperial Bank as far as the note issue work is concerned will be acting as the agent of the Government.

4398. When one is working out a practical scheme, is it logical to make a difference in ownership, as regards the vesting of rights and the vesting of liabilities against those rights?—I am afraid there is no such difference, because if the Imperial Bank acts as the agent for Government, then all the assets that belong to that department will belong to Government and all the liabilities will remain with Government; only the handling will be in the hands of an independent body.

4399. Your proposal, at any rate, is that the notes should remain the notes of the Government, bearing the name of the Government, and that whatever promise there is on them should be the promise of the Government?—As it stands at present; I may again repeat, we have not thought it at all necessary to make any change. So my Committee has not considered whether the future note should be the note of the bank or of the Government because the feeling was that the work to be done was to be done as agent of the Government.

4400. I am trying to explore what the actual working out of the scheme of agency would be. You propose that the reserves should be vested in the currency department. Is it your proposal that the currency department should be a department of the bank or a department of the Government?—Well, Sir, it will be a department of the bank, but absolutely independent of its banking department. The two will not be mixed up, and the profits or losses of the one will not be mixed up with those of the other.

4401. Let us distinguish between the separation as regards accounting and the separation as regards executive control. Do you propose that the currency department of the bank should be under an executive control different from that of the rest of the bank, or does your proposal as to separation only apply to the method of keeping the accounts on the two sides of the bank?—There again I may admit that we thought that details or some kind of a skeleton would be published for consideration of those bodies that come up for evidence; but there has been no such scheme put forward; we have not been able to examine each of these details separately.

4402. I am sure you would agree with me that it is so much a greater advantage to get the fresh ideas of witnesses rather than suggest ideas to the witnesses?—My point was this: we are quite prepared to give such ideas as we have on different subjects; but when it comes to a question of details it would certainly have helped those that come to offer evidence to have been told that this particular question would have to be considered, and they could come prepared to say which side of the question they were prepared to support. But if you wish it, Sir, I may put forward such views as I think my chamber would be willing to support, and that would be that so long as the accounts of the department were entirely separated and the Imperial Bank was handling the department only as an agent, there would be no objection to the executive control remaining in the same body, that is, under the Imperial Bank. There need not be a separate executive body to control the note issue work.

4403. I suppose practically you would see difficulties in making a two-headed institution that is capable of leading a healthy life?—Yes, Sir, all India is against dyarchy in any form.

4404. That being so, will you tell us what, in your opinion, is the reason for the desirability of maintaining the separation of accounts as between the issue department and the banking department of a Central Bank? We know the two systems, the British method of the issue department and the banking department separate, and the continental method of lumping the two together. You, I understand, express a preference for the separation of the two departments of the Central Bank?—Yes, Sir, as far as I can see my Chamber would be for following the model of the Bank of England rather than that of continental banks.

4405. What do you consider to be the particular advantage which makes the one preferable to the other?—Well, Sir, that advantage has been put by various speakers in England, including the Premier, as making the system fool-proof and knave-proof. Mr. Baldwin put it very recently in a speech.

4406. You think that stating in separate form the basis of the note issue shows in such a conspicuous and visible way to the public exactly how the note issue stands as to make it impossible for a fool or a knave, who either by folly or knavery muddles the system, to escape detection?—I may explain it a bit. It is not always knavery that does it. It is not always folly that does it. But in political matters frequently expediency is given far greater weight than correct scientific handling of a question, particularly currency questions. And a system like that of the Bank of England makes the system proof against even that kind of thing until Government does it in a way which makes it very clear to the public what is being done.

4407. Assuming the transfer on this basis, do you see any necessity for any changes in the constitution, that is the provisions as to the executive government of the Imperial Bank of India, and, if so, of what nature?—Well, Sir, the feeling of my Chamber which has been expressed on other occasions is that the constitution and control should be gradually more and more Indianised. We quite understand that you cannot do it in one day. But the ultimate goal that the Chamber would aim at is that the final control of the Imperial Bank, which would be practically the central state bank of the country, would be some day entirely in the hands of Indians.

4408. That is rather a question of direction of policy?—Yes, Sir.

4409. In the first place, I think we should try and find whether, taking the statutes of the bank as they exist at present, you consider that any change in these statutes is necessary, particularly with reference to the question of the amount and degree of Government control which you desire over the bank?—I believe, Sir, the present provisions are sufficient to give Government such control as would be necessary provided of course you accept the suggestion that I have put forward that the transfer of the Currency Department to the Imperial Bank would be to them as agents and not as owners of all the assets and liabilities. These gentlemen representing government on the board of governors would be always in touch with what was going on and would be always able to see that the Imperial Bank was carrying out its duties as it should and as laid down

by statute. So I don't think any extra Government control is necessary because then it would not be an independent private bank looking after the Currency Department but again Government under a different name which we wish to avoid. So I would not think any other control necessary, but if I may be permitted to put forward a suggestion this has, I may again repeat, not been considered in detail by my Chamber but I simply put it forward as what I consider most probably would be welcomed by my Chamber, namely that, if with the responsibilities of the Currency Department handed over to the Imperial Bank, it is found necessary to have a third managing governor—we have two at present—then the law should provide that at least one of these three gentlemen should be an Indian.

4410. Would there be any other changes in the constitution??—Until, Sir, either the Commission or the Government later on puts before the public the constitution as they want to frame it, it will be very difficult for bodies like us to say exactly where they would differ.

4411. If we are to frame suggestions for a constitution, we have to frame them on the evidence that is given to us?—The evidence that I have tried to put before you is that so far, apart from the two things that I have mentioned—*i.e.*, ultimate Indianisation and if there are three governors that one of the three should be an Indian—we do not think any constitutional changes necessary. If, when the regulations are formed for handing over the Currency Department's work to the Imperial Bank, there is found to be any difference of opinion, we could then put it forward because, without knowing it, we cannot do it. But, as we propose that the Imperial Bank should be only an agent as far as currency work is concerned, the question of constitution would not come in.

4412. You quite fairly say this is the chief alteration which suggests itself to you at first sight, but that of course one cannot pronounce that other alterations might not suggest themselves when one comes to consider completed proposals?—Yes, Sir, that is what I have in mind.

4413. A question upon which you lay a good deal of emphasis, I understand, in your present recommendations is the maintenance of adequate Government control over the bank. In western Europe one is used to the publicist taking rather the opposite view and deprecating any form of Government control over the Central Bank of issue. For our enlightenment, could you explain to us why we meet in your mind with a difference from what perhaps we are accustomed to as the common point of view of the publicist?—Well, Sir, what my Chamber have in mind is this, that the handing over of the Currency Department to the Imperial Bank is a very important matter and we are really taking a new departure in this country in this matter. We know that even the United States Government—a country where in matters of banking and currency they are certainly far more advanced than we are in this country—when they had to devise a new system, they considered it necessary to have very considerable control maintained on the whole system. I believe that control is even greater than what would come in under the suggestions that I have put forward earlier. But there is another thing, Sir. There is a fear in the minds of the Indian public that entirely divesting ourselves of all control might prove very risky, particularly when the Government is not a responsible Government.

4414. With that limitation of the functions of the Central Bank to which you have referred, what are the dangers which you fear?—Well, Sir, it is very difficult to say what the dangers are until you are faced with the circumstances, because in 1914 we would not have been able to imagine the combination of circumstances under which the various measures that had to be taken in the last ten years were taken. So until we have that combination of circumstances we cannot say exactly what is going to happen, and it is in the minds of my friends in the Chamber that it would be much safer to see that the control was there.

4415. You see, my chief difficulty is to apprehend this. What you chiefly deprecate is any form of artificial interference with the natural working of your currency system once you have got a system which you can trust?—Exactly, that is what they fear.

4416. Certainly to the outsider the question suggests itself: are not you much more likely to run the risk of interference if you keep Government which is political, control over your currency authority than if you make that currency authority an independent banking authority which is not subject to political control? You see the difficulty in the mind of the onlooker who is trying to follow your reasoning?—Yes, Sir, I can see that difficulty, but the only reply that I can put forward is that in this country we have to advance very much further before we can undertake the experiment of absolutely independent banking control as you have in England. We would prefer at least for the next ten or twenty years the control in the form that it exists, because if I understand the situation rightly the present representation of Government on the board of the Imperial Bank does not mean day to day interference, and it will not lead to any such undesirable results as you, Sir, seem to have in mind because the small amount of representation that is there continues to exist. It will only enable Government to keep in absolutely close touch with whatever is passing in the Imperial Bank, and it will enable the Government to see more readily than they might otherwise do how the whole thing was being managed. I may further point out that although the Bank of England is supposed to be absolutely independent, my impression from what I have read on the subject is that they always keep in very close touch with the treasury authorities, and it is that kind of touch that will be provided here; and later on if it is found——

4417. But there are no Government Directors on the Bank of England?—I know that, Sir. England has a financial history of 150 years' experience behind it and a very responsible government where anything that goes wrong is threshed out in Parliament. We have unfortunately in this country to continue to labour under the feeling that the position is different and that our treatment of the subject must remain different.

4418. Threshing out questions of currency policy in Parliament does not, I fear, always lead to enlightenment. May I put my question to you in the form suggested by your last answer. The authorities of an independent Central Bank are free to consult and confer with the Government through the Treasury, to hear their advice and to take it if they choose. Does not that commend itself to you as having some features of an arrangement which at any rate is an ideal one as to the relations between the Central Bank and Government?—Well, Sir, I am not prepared to accept that on behalf of the Chamber.

4419. Now let us turn back to one more question in order to elucidate your proposals. You propose that the assets of the reserve should be in the hands of the Currency Department, that they should not be formally transferred to the Central Bank, that the legal property in them should still be in the Government but that the Central Bank should use them as agents on behalf of the Government. Will that make any difference in practice as to the working of your system, or of the system you recommend, or of any other system that were adopted as the basis of the currency, or is it only a formal distinction?—Well, Sir, my feeling is that under the proposals which would make the Imperial Bank act as agents, the working of the Currency Department will not be very different from the actual working of the note-issue Department of the Bank of England, because in England—if I am wrong, you will correct me—the

Bank has no discretion as far as the note-issue Department is concerned. If notes are tendered, it has to give out gold. If gold is tendered, it has to give out notes. Of course it is called buying or selling, words to which I object. But apart from buying at the rate laid down by statute and selling gold at the rate laid down by statute, I have not been able to see anything in which the discretion of the Bank of England comes in as far as the note-issue part is concerned. As far as the control of credit in the Banking Department is concerned, that is a different matter.

4420. As far as the note-issue is concerned, its functions are strictly limited by statute?—I agree.

4421. The note is not British currency. As far as the British currency is concerned, the discretion of the Bank of England is a very much wider one?—I am afraid I will not be able to agree. This will be highly technical and I am not prepared to go into a discussion on this point to-day.

4422. Just to pick up the question then which we were asking, as I gather it would be your opinion that this reservation of the proprietary rights in the reserves, as it were, would really not make any very great practical difference to the working of the system you recommend. If that be so, why do you emphasize the necessity of reserving the proprietary rights in the reserves to Government and not transferring them to the Bank?—I think I may explain that. If an agent of mine handles my property, he feels all the time responsible for it, and he knows that he cannot do anything else except what I have instructed him to do. If he is handling his own property, he knows that he can do whatever he likes with it. So my feeling is and I believe that was at the bottom of the feeling of my colleagues on the Chamber's Committee that the best thing was to ask the Imperial Bank to act only as agents; then the Imperial Bank would feel their responsibility as agents and would never think of handling the reserves or other assets of the Currency Department in such a way as they thought best.

4423. The practical importance of this provision, I imagine from one aspect, is that it would make it easier for the Government to terminate the agreement with the Bank as to the control of the management of the note-issue. That would be the remedy if anything went wrong?—Exactly, Sir.

4424-5. As regards the two forms of the reserve, that is the paper currency reserve and the gold standard reserve, we follow your proposals; but I should like to know what your opinion would be as regards a proposal which has been put before us for the combination of the two reserves into one, so that in future there should be instead of two reserves a single reserve, held to cover all the purposes of a reserve, that is the internal convertibility of the note and the external protection of the exchange value of the internal unit of currency, whatever it may be?—You will see that, Sir, from paragraph 18 (iv) of the memorandum. Well, Sir, you will find that the recommendation of our Chamber is that part of the gold standard reserve may be transferred to the paper currency reserve to give it a larger backing of gold and gold securities and thus facilitate the establishment of an effective gold standard and that the remainder may be held in the reserve for the support of the gold standard system that is herewith proposed to be introduced. Now the main difficulty that our Committee felt when they were considering this question of the two reserves was that unfortunately in this country we were loaded up very heavily with the silver token currency, and they thought that the best solution would be to make the paper currency a separate entity with a sufficient proportion of gold backing from its own direct liabilities for the note-issue and then whatever surplus remained should be continued as a separate reserve to look after the other liabilities under the silver token coin and which it was very difficult to gauge exactly at the moment.

4426. Now let me call attention to your general scheme. That provided for the transitional period until the silver rupee ceases to be full legal tender and becomes a mere subsidiary coin?—Yes, that was what my Committee had in mind.

4427. Then we are right in looking upon your scheme as a scheme for the transitional period, during which the silver rupee continues much as it is at present, followed by a subsequent period when the reserves are adequate to undertake the liability and to confront the situation of making the rupee limited legal tender and reducing it to the position of the shilling?—Exactly.

4428. Now during that period, are we at one in thinking that the silver rupee has many of the characteristics of the note, the note printed on silver?—That would be correct.

4429. You agree that there is a substantial veracity in that aspect in looking on the rupee during the transitional period as a note printed on silver?—Absolutely true, Sir.

4430. During that period, in view of that substantial similarity between the silver note and the paper note, is there any objection in theory to combining the two reserves which are held against the liabilities implied in these two forms of note outstanding? If they are both notes, both of the same nature, why should there be different reserves against the two sorts of note? That is the question which we put to ourselves in consequence of evidence that has been tendered?—Well, Sir, that particular aspect of the question has not been gone into by my Committee. They thought that at the first stage if we did what has been suggested in this memorandum then at a later stage we should be able to come to more correct conclusions about the handling of the two reserves.

4431. I do not want to press upon you a question which you think the Chamber is not prepared to answer, but if it is possible for you to express any opinion, as a matter of economic science, upon that matter it would be of interest to the Commission?—I am afraid, Sir, that the Chamber has not considered it from that aspect. They thought that the proposals as embodied in this memorandum would be a very satisfactory beginning.

4432. I think perhaps I may fairly put it in this way with regard to the combination of the two reserves. Would you see anything in such a proposal which would militate against the adoption of the recommendations which your Chamber is prepared to make? Is it inconsistent in any way?—I am afraid, Sir, I cannot reply as a Chamber but if you wish to take my personal views, because I have not been able to consult my colleagues on this particular aspect, then most probably when we would have considered this in detail, the task would have been how to put this gold standard Reserve entirely into the Paper Currency Reserve. Something would have had to go out if these additional gold securities came in and then we would have to consider what should go out, whether it should be the Indian securities or the silver notes which are now in the reserve or what.

4433. I quite follow your answer, but it possibly needs a little amplification. I think you have gone through our memorandum* containing some sketch proposals of various forms of currency reserves?—We have.

4434. May I call your attention to a proposal in paragraph 4 of that memorandum containing various structures. The proposal to which I want to draw attention for the moment is that which has been described as an alternative proposal, though it is wrongly printed as "attractive"?—Yes, we have noted it, Sir.

4435. The basis of that alternative proposal is that in combining the two reserves you should estimate the possible liability in respect of the rupee silver notes on the following basis: that you should seek to estimate the maximum contractibility of the silver rupee note issue, taking that into account as a

* See Appendix 2.

liability against reserves and setting it off in re-establishing your combined reserve as so much increased liability and so much reserve brought in. That would diminish what you refer to as the amount which is to go out, because you are adding a fresh liability in respect of the possible contractibility of the silver rupee circulation. Would that not be so? —With the reservation that this has not been considered in detail by my Committee, I was unable to do it because the papers were sent to us under strict confidence and I have been able to consult only Mr. Lalji here. But we have felt two difficulties, Sir. First of all we do not think it is very easy to gauge today at this stage what the liability of the silver notes that are standing out is going to be; and secondly, possibly we do not understand the position correctly; but we do not see how that liability is going to be shown in the currency statements that are week by week published. They do show your 189 crores of notes outstanding and various other reserves. Are we going in future to assume that there are further 200 crores of silver notes in circulation and so the total is 389 and the assets behind is so much? I am afraid that that is the difficulty that we have been unable to get a solution of; and wo thought that we could not offer you any helpful remarks.

4436. The proposal is that you should roughly assess your liability in respect of the silver rupees outstanding. The figure given here is 50 crores, and it is assumed, if I remember right, that there cannot be a greater contraction than 25 per cent. of the rupees which may be in active circulation?—Which 50 crores do you mean, Sir?

4437. It is referred to in paragraph 4 of the memorandum I am referring to. "It has been suggested as an alternative that this liability can roughly be assessed at 50 crores in respect of rupees outstanding and 1 rupee for every 4 rupees to be coined in the future"?—May I point out, Sir, that is an entirely different scheme? We are discussing a gold exchange standard scheme with a rupee to be freely coined in the future. From that side of it our Chamber refuse to consider the question.

4438. In order to simplify our discussion for the moment, let us omit that final reference to "one rupee for every four rupees to be coined in future". That leaves us only with the liability in respect of rupees outstanding at present?—I am afraid, Sir, we cannot agree to this 50 crores or any particular figure at this stage. We do not think we have material enough for it.

4439. I quite follow; you are of opinion that the difficulty of assessing this liability is too great to be dealt with in such a summary way?—At this stage.

4440. Do you mean at this stage of the knowledge of the position or at this stage of the development of currency policy?—At this stage of our knowledge of the position as it will be 10, 15 years hence, after a certain amount of gold has been in circulation, and after we know what is the minimum amount of shillings that India will continue to want.

4441. Now one or two general questions upon your recommendations before I conclude on this heading. As we understand, the system which you recommend during this transition period will be in effect a gold exchange standard?—No, Sir.

4442. In what respect will it differ from the gold exchange standard during the transition period?—Even in the transition period, Sir, every fresh issue of currency will be entirely against gold. That is what I wanted to draw attention to. If you kindly refer to paragraph 13 of our memorandum, you find: "The next point that my Committee would like to emphasise is that no currency shall be issued in future against anything but Gold". We are of opinion that that differentiates the system that we advocate very materially from what is called a gold exchange standard, because a gold exchange standard postulates the creation of token currency for internal purposes and the exchange of gold for it for external purposes, while we do not advocate anything of the sort.

4443. Your system is different from that in so far as this: that you retain the existing token of the internal currency at its present volume?—Exactly.

4444. But all future increases are to be on a gold basis?—May I supplement that, Sir? If we try to compare it with the present system as it obtains in England, the position if these recommendations are accepted will be that from to-morrow there will be a certain amount of gold currency in circulation as in England. By gold currency I mean gold coins or notes which will be exchangeable for gold and a certain amount of shillings. The only difference that I could see, the only practical difference of course, theoretically there may be others, would be that we might in this country be having perhaps too large a number of shillings than is good for us, but that we have got to see by experience. I have not been able to get the figures of the total volume of silver currency now in existence in England and so I cannot say whether the volume of rupees circulating is too much for a population of 350 millions of people. But apart from the fact, which is merely a fact on the statute, that you cannot exchange the shillings for gold, the shilling circulates freely in England and works as 20th part of the pound and buys everything that such 20th part of the pound will buy. That is what is going to happen in India from to-morrow if this scheme is adopted. The rupee will certainly be a certain part of tho gold coin, and it will go on buying all commodities to such an extent as that part of the gold coin would have bought. So my Committee have thought that the future position in India will not be in practice materially different from the position in England.

4445. I am not sure that I quite follow how your transition period will work in one respect, and perhaps you will assist us in that respect. As I understand, while you have this note on silver outstanding during the transition period, any rise in its gold value above the ratio which you adopt, *viz.*, 15, is to be prevented by your provision as to the coining of gold at that ratio?—Rise in what way, Sir?

4446. Any rise in the gold value of the rupee above the ratio of 15?—Will you please explain how that rise could come about? Then I may be able to tell you.

4447. I should be inclined to ask, how does it come about at present, by such forces in the exchange market which tend to produce fluctuations in exchange, with which you are so familiar?—Because there are two sides to that question, I wanted to get the question cleared up. The rupee has varied in value owing to fluctuations of silver also.

4448. I was not referring to that: assuming stability in the silver market?—Then if it is merely the balance of trade that is going to upset the value of the unit in terms of gold, then it will be adjusted in the same way as in England by some gold going in or out of this country and to the extent that that adjustment is needed gold will continue to go in or out and I don't think the breakdown that you postulate will occur.

4449. Is it part of your scheme that, during the transition period, there should be any legal obligation upon the currency authorities to sell gold at a certain ratio, to provide gold for export or any other form of international payment? I do not see it expressly referred to in the memorandum?—No, Sir, it is not. We have not specifically put it because most probably the committee felt that the reserves with which we propose to begin will be ample to provide for that contingency.

4450. That suggests the question how those reserves would be used. By what method do you propose that these reserves should be used for the purpose of maintaining the stability of the exchange?—I think, Sir, the Imperial Bank would

have to pay out to all applicants gold against tender of local currency whenever it found that the balance of trade was against us because then it would be clearly the correct application of the gold standard.

4451. I think that is implied in your recommendations?—Yes, it is implied. I am sorry it is not there, but it is implied.

4452. Accepting the characteristic to which you refer, that future increases of internal currency are to be in the form of gold, or notes against gold, does that differ in any other way from what we are accustomed to think of as the gold exchange standard?—It would differ in this that in the gold exchange standard it is considered right and proper to issue currency against securities of various kinds, sterling securities. Now that is what we do not wish to occur in the future. That is the most material difference.

4453. The essential of an exchange standard is the differentiation between an internal currency, which is not an international currency, convertible into some other form of currency which can be used for international payments?—Quite so.

4454. Except for your provision as to the increase of the use in India of gold currency which is an international form of payment, it would seem at first sight as if, during the transition period, your proposals were really not different in principle from those of the exchange standard thus defined?—Well, Sir, as we have put it, what we want is the gold standard and nothing else. We want all the implications of the gold standard as far as meeting India's foreign liabilities goes.

4455. I understand that is the final stage?—We mean it immediately you start this scheme.

4456. What do you expect to occur on the adoption of your recommendation on behalf of the Chamber? How do you think this will work out as regards the actual entry of gold into circulation in the country? Do you think it will increaso the amount of gold in active circulation for currency purposes?—Well, Sir, the feeling is that if the public in India got the confidence that our standard was a gold standard, the coins in gold that might go out into internal circulation would most probably remain in circulation because nobody would care to put them into a safe place, as they do now, knowing that the currency was gold and that gold would be available if wanted. I may in this connection, Sir, point out one thing that has occurred to me in our experiences of the silver period. In the evidence before the Herschell Committee it was shown that although silver was very largely used, even at that time, for ornaments and social purposes, practically all of it went through the Mint. Since we went over to gold that thing has never had a fair chance becauso Government refused the responsibility to give gold or to coin gold. If wo agree from to-morrow to mint all the gold that is tendered, then, Sir, my opinion is that the importers of gold will again very largely pass it through the Mint and hold it as coin and not as bullion or as ornaments with the result that on any pressure from an adverse balance of trade all that gold coin which is money will come out to buy commodities in the market.

4457. Suppose that takes place, that the gold that comes into the country under this arrangement goes into circulation substantially, then if that be so, if it goes into circulation, it does not stay in the reserve?—That is what will happen after we make gold payments for internal purposes obligatory.

4458. Wait a moment; that is going just a bit ahead. I am thinking of the transition period. You have given me reasons for supposing that, once this arrangement be adopted, the gold will actually go into circulation and remain there circulating. That was the effect of your answer, was it not?—Yes, Sir. The stages will be somewhat different. Very few men who import 100, 500 or 1,000 ounces of gold will go to the Mint to have them coined. The bulk of such imports will be by bankers, and when they bring the gold their first anxiety will be to get it converted into local currency so that they may not lose anything in interest and so that the gold may become immediately payablo in their own cash. So what will happen is that in the first place the gold will go through the Mint and the currency authorities will issue the equivalent local currency to the bankers who have tendered the gold.

4459. That is for notes?—Then the gold will be coined and remain in the hands of the currency authorities, and currency issued against it and the gold will remain in the Reserve until notes or cheques are offered for conversion into metal. So if in the transition period the option has been reserved, as we suggest, in the Chamber, of cashing notes in gold or in silver at the option of the currency authorities, then the currency authorities will have very great control over the disposal of the gold that has come to the Mint. After the transition stage, and when you make it obligatory on the currency authority to give gold to all comers for all purposes, it may happen that the bulk of the gold will come out into circulation immediately; but this we who have thought over the subject do not apprehend if confidence has been restored in the Indian public that we are on a gold standard, because then they will not come for gold excepting when they want it to be used as metal. If it is to be used as currency we feel that they will be satisfied with holding the currency that then exists, notes or even rupees, and would not bother to go and change it first thing into gold and then spend it in the bazaar. It is only for gold that may be required to be stored or gold that may be required to be changed into ornaments that people will convert their holding of currency into gold. We do not apprehend there will be a rush for the conversion of all local currency into gold.

4460. Possibly. Let me now put to you a difficulty which you may have felt. I fear it will necessitate rather a long question in order to explain precisely the difficulty, which may perhaps be described as a dilemma. Let us assume first of all, that the gold that is imported during the transition period on the whole goes into circulation. If it goes into circulation then there is no accumulation of gold reserves. When you come to the moment at which you are going to limit the legal tender of the rupee, you will have, I imagine you will agree, to undertake then as a preliminary to the limitation of the legal tender of the rupee the obligation for a period to convert rupees outstanding into gold. To do that you will need a substantially larger reserve of gold than you have at present, and since your gold is going into circulation you will not accumulate in the reserves the sum required to meet that eventuality. If, on the other hand, your gold does not go into circulation but stays in the reserve, the local currency in the form of notes being used against it for the currency purposes of the country, then undoubtedly you are accumulating during the transition period a bigger reserve of gold. But, on the other hand, you are, are you not, constantly increasing the proportion of your metallic reserve to your note issue, and that might be expected to produce a state of affairs which will create an irresistible temptation to the inflation of the currency of the country. You will have, in fact, such a state of affairs as has arisen in America lately. What would you say as regards your apprehensions of these respective unfavourable aspects of the proposals which you recommend, if I have succeeded in making my point clear to you?—Yes, Sir, I can understand your question but I am afraid I will have to answer it again in parts, if you will kindly tell the shorthand man to repeat the question becauso unless we take the question in parts it will be very difficult for me to give a correct answer.

4461. If it will assist you, now that I have shown the general drift of my question, I will split it up into parts. Assuming then, first of all, that imported gold on the whole goes into circulation?—That I have already pointed out would not be a very correct assumption.

4462. If we may make the assumption in order to test the possibilities, do you agree, or do you not, that when the time comes to limit the legal tender of the rupee you cannot do so unless you have as a preliminary a period during which you have undertaken to convert outstanding silver rupees into gold? —There are two parts to this question; the first is the time when you come to consider the limitation of the legal tender. In the Chamber's representation we have made it very clear (paragraph 12) that as soon as our reserves become sufficiently strong in the matter of gold holdings, the question of some limit in the legal tender of the rupee may be considered. So if at the time the currency authority——

4463. I think we shall be apt to lose our way it we do not get the preliminary question cleared out of the way. The first question is this: (I think we need to know the answer to it in order to compare your ideas with other ideas we have) assuming that you are going to limit the legal tender of the rupee, can we do it?—Without seeing that the reserves are strong?

4464. Quite apart from that?—Then, we do not assume that at all; our Chamber does not assume that at all.

4465. You assume that you cannot do it unless your reserves are strong?—Quite so.

4466. Is the reason why you want to have a strong reserve this, that you think you will have to accept an obligation to give gold against rupees freely before you limit the legal tender?—There again I am afraid that will not be the opinion of the Chamber; so long as the rupee was not demonetised, that is, made valueless except for its silver bullion, we do not think that we shall have to give notice of a given period during which all applicants who hold silver rupees could come and convert them immediately into gold, because the power of the rupee to purchase commodities will remain, and whoever wants gold will be able to get gold either as bullion or as coins which will then be circulating in the bazaar; and I do not think that there would be any necessity to offer a period during which people would be told that they could go and convert their rupees, because we would not be destroying the value of the rupee.

4467. Not destroying the value of it, perhaps; but must it not be said that you are very seriously affecting the value of the rupee when you are limiting its right of legal tender? Supposing I have ten lakhs of rupees in a hoard, must I not consider that the value of that hoard is very much affected when those rupees can no longer be used for large payments and can only be doled out in fifties?—Quite so; but if you are the holder of such a big stock you would have taken your precautions during the transition period, and those rupees during the transition period would have come in to pay for gold bullion in the open market.

4468. Then of course there would be less gold for use as currency or to enter the reserve; the gold would have been absorbed into the hoards?—The open market gold in Bombay or Calcutta would not be the gold that would go into the currency; it would be the surplus balances of our foreign trade that bankers will bring in that will go into the currency.

4469. Do you consider, then, that the adoption of your proposals will lead to an increased import of gold into India beyond the average of the last two or three years?—I think that also is a misapprehension. India cannot possibly import more gold either for currency or for any other purpose than the balance of her trade entitles her to; so if the balance of India's trade remains as big as in the past two or three or five years, India will import as much gold; if the balances are much smaller it will be much less; if the balances are bigger it will be more. I personally think that it is not likely to be more because in the past few years the quantity of imports has been very vitally affected by the position of currency and exchange. If trade is freed from all these manipulations, it might be found, and in the opinion of the Chamber it will be found, that there will be a freer demand by the public for commodities and that that would to that extent reduce the demand for gold.

4470. If and in so far as the imported gold is taken by the present holders of silver hoards in replacement of their silver hoards, then it is not serving any useful purpose in providing a substructure upon which the full gold standard system is to be built, either in the form of gold currency or gold in reserves?—Well, Sir, what will happen in the future is that unless gold comes in and is sent in to the mint or to the currency authorities, there will be no fresh issues of the currency; so that taking the thing at its very worst, viz., that all fresh gold that comes to the mint through bankers immediately goes out cent. per cent.: the position will be that there will be no further note issue, and the backing will remain what it is when we start with to-day: if gold remains that will *pro tanto* improve the percentage backing; so I do not see that the position would be at all weaker; it may be the same; it may be much stronger.

4471. Let me, on the basis of your last answer, finally turn to the other possibility to which we have referred, and ask you this. Supposing that what takes place is that there is a steady increase in the note issue cent. per cent. against gold brought in and tendered for notes, might it not be said that you are thereby, through the steady rise in the percentage of the gold backing of your note currency, producing a situation which would be dangerous in respect of the very strong temptation which it would impose towards an inflation of the currency?—I personally cannot accept the statement that currency issued against gold means inflation; that is, I know, the view held by many economists in Europe, but I think it is a wrong view and I am supported in that view by the fact that notwithstanding all talk of gold inflation England has rejected all other solutions and gone back to this one well-tried old method of issue of currency.

4472. Is it not a question of degree? As long as you retain the provision that the future issue of notes is to be cent. per cent. against gold, then we may say that, owing to the confinement to that proportion, there will be no risk of inflation. But let me suggest to you the effect it would have upon the commercial and industrial community of seeing a rise to a very high figure in the gold and the proportion of the gold backing against the note issue. When the time came when industry as a whole was badly in need of financial accommodation, might there not be an almost intolerable pressure brought to bear upon the currency authorities to attempt to build a higher structure of credit upon this big gold backing?—I am afraid, Sir, if you ask me to give an opinion about assumptions which I am unable to accept, I am not in a position to reply to them. I do not agree that industries will be in a very tight position and will insist on more financial facilities when our gold percentage is very very high. It will be rather the other way, because India will be getting into its currency circulation only as much money as it earns and if I may be permitted to point out any assumption of the kind that you, Sir, put forward in your question is the very negation of the gold standard. It is exactly the giving out of that currency and playing in your and my pockets that makes people think of investing it in profitable channels, and it is not the small individual owner of one or two or five sovereigns who is going to create industries; but the larger circulation of money among the people means better trade and better trade means a much more prosperous position for the trading and industrial classes

and that ultimately leads to new developments in industry, which means that gold again is used in building up or developing industries. So I am unable to accept the statement that the mere existence of that gold will bring about either inflation or very serious monetary stringency. If I have not correctly understood your question, you might kindly put it in a different form.

4473. Not at all, Mr. Madon; I think you have, if I may say so, clearly apprehended my question very well. Finally, I understand that your Chamber expresses on the whole a preference for the sovereign rather than the mohur as the unit of gold currency, that is, subject to arrangements being made for minting?—And a very clear assurance that the Royal Mint given to us will not be withdrawn on very frivolous pretexts. If you will permit me, Sir, it is not merely to complain but to show the difficulties that we fear; in 1918 a Royal Mint was opened here, sovereigns were coined, and it is in evidence before the Babington-Smith Committee that minting was stopped because the gentleman sent out from England fell ill. If that kind of thing is to occur again in the future, then our Chamber says: "let us have a mint of which India is the sole master." Otherwise we would certainly welcome the sovereign which is the most commonly known unit all over the Empire.

4474. I think that is a very clear reply; it precisely shows the opinion of your Chamber. I do not intend to question you again at any length upon the subject of the ratio. Just let me put it in this way. In dealing with the ratio as regards 15 to 1, are there any considerations which the Indian Merchants' Chamber desire to advance supplementary to, or different in character from, those which you so ably expounded to us the day before yesterday?—The Chamber as a body of merchants are convinced that any higher ratio than what we have had ever since we went over to the gold standard is detrimental to the development of India's industries as well as to India's agriculture. In the personal evidence, Sir, I tried to support that by technical reasons so far as I was able to put them forward, but as a Chamber I would content myself with this general statement.

4475. As regards this question of ratio, there is one point in your statement as regards the opinion of the Chamber and of yourself, Mr. Madon, which I should like to be clear about if I can. It has occurred to me that some of the evidence given—not I think by yourself—has suggested this point of view that, if there be any disturbance in passing from the present market ratio of 13⅓ to that of 15, it can in some way be avoided on the acceptance of a full gold standard system by fixing a ratio of 15 to 1 in relation to an Indian gold coin, the mohur, or a sovereign in circulation in India. What is your opinion on that? Again I have to ask you to make an assumption in order to make my question clear. My assumption is that there are some disturbances involved. Supposing we were continuing the present system and passing from a ratio of 13⅓ to 15, is it your opinion that, if there be such disturbances, they can in any way be avoided by the introduction of an Indian gold coin as the standard unit and the fixing of the ratio as 15 to 1 in relation to that unit?—I will repeat the question as I understand it so that I may know whether I am answering the right question.

4476. My difficulty is that I am trying to bring your mind to a point of view which I believe is not your own?—If it is a question that our suggestion of 15 to 1, if adopted, with the sovereign as the standard coin, will lead to disturbances and that, if it is adopted merely for internal relations between some gold coin, sovereign or mohur, and the rupee, there would be no disturbances, then I am afraid I cannot agree. I am afraid, Sir, I have not followed the question. I will put my reply again in a different form. I think, Sir, that there will be some little disturbance when you change the relation of the rupee to the gold coin from what it is to-day, say 13⅓ to 15. That cannot be avoided.

4477. I do not want to stop your answer but, if I may say so, you have satisfied me by your answer so far?—Then, if you will permit me to go on, we shall have to consider the kind and the intensity of the disturbance that is likely to occur. Now, Sir, going back from 18 pence to 16 pence means affecting the interests of all those who at the moment have got to remit money home because they would have to spend more rupees in order to get the same sovereign. Let us examine who these people will be. If it is bankers, their position, unless I am very wrong, will be that of an overbought sterling position, because from the very fact that the export trade of India is something like 120 to 150 crores—say 80 to 100 million pounds, in excess of the import trade, it would be surprising if banks were not holding more bills than their commitments for remittances. If my analysis of the situation is right, then all these bankers who have bought bills to-day on the basis of 13⅓ rupees will get their pounds in London and be able to bring them all back at more money. So I don't see that the banking community will be affected adversely. And the only other community will be the import trade, that is the people who have made contracts for foreign commodities and the shipments have not yet come in, the remittances have not gone. These people could be divided into two classes. There would be the more careful class who would cover its engagements because they could be covered. The talk of disturbances is put forward on the analogy of what happened in 1920-21, but then, Sir, the position had become so difficult that bankers were unable to take any such responsibility as to give forward exchange cover. To-day the position is different. Bankers are willing to give exchange cover to all importers who want it. I understood yesterday from a well-known exchange broker that they are willing to do it right up to December next, twelve months hence. Now, Sir, all those who are familiar with the import trade know that there are very few import contracts which extend for 12 months. They are mostly seasonal, and if the first season in March, April, May, goes through smoothly, and the rainy season begins auspiciously, then about July-August, fresh contracts are made. So, to-day, the knowledge such as I have of the import trade (and I am myself an importer, Sir,) leads me to think that there cannot possibly be import trade contracts which extend very much beyond April-May or June next year. And every one of these gentlemen, if he wants to cover himself and to avoid risk, is to-day able to cover. If there are people still, the other class of importers who are speculating on the exchange going up to 20 pence or 22 pence, or whatever it is, and who hope to make a profit by that, then we need not consider them at all, because they went for a speculative profit and did not cover, and they would be making a speculative loss. So, Sir, if you consider that my analysis of the situation is sound, then I don't see that there would be any important disturbance of trade by going back from 18 to 16 pence.

4478. How would the transfer of the ratio from 13⅓ to 15 affect the holders of gold who purchased that gold at 18 pence?—All those, Sir, that hold gold to-day? The practice in the gold market is never to hold gold for long periods in sterling money. Gold is generally bought for immediate or near shipments and exchange is generally fully covered. So that all holders of gold will be holding gold on a rupee basis excepting perhaps a few whose shipments may be on the way when some new rate is declared. And as I have already pointed out, such holders would be in the same position as the importers. They would have no business not to cover their exchange. If they haven't it is their risk. If they have, then the position would be that the gold which they would be holding would have cost them Rs. 21/4 or thereabouts, and going back to 16 pence would give them

a profit not a loss. If there are any other sections that you have in mind, and if you can put them before me, I shall be pleased to try and explain what I think of them.

4479. (*Chairman.*) No. I think that completes the picture very adequately, for which I am much obliged to you. There may be a few supplementary questions which my colleagues might like to ask, unless your colleague desires to supplement in any way your answers on the questions we have already dealt with? (*Mr. Lalji Naranji.*) No, Sir, I have nothing to add. Mr. Madon has dealt very fully with the matter.

4480. (*Sir Henry Strakosch.*) I have one question to ask supplementary to some of the questions put to you by the Chairman. You told us that the prospect of introducing a gold standard would create a great deal of confidence in the country which would lead to the investment of the savings of the country in things other than precious metals, and that is the end which you have in view?—Some of them.

4481. You also said that it is common knowledge that India, as a rule, has a heavy balance in its favour abroad, exporting more than it imports. And I believe your scheme is based upon the supposition that the surplus available abroad will be brought into the country in the form of gold, which gold would then be gradually accumulated and put into circulation at a date when you have sufficient gold in hand. Now I want to put to you a possibility which does not seem to me very remote. If confidence is established, it may well be that the people of India will invest their surplus accumulated abroad, not in gold but in a form commonly used in other parts of the world, namely, capital goods—goods brought in for the development of the country. If I may explain: What usually happens in other countries is that a surplus abroad is converted into ploughs, into reaping machinery, in fact into things which are there to improve the system of production and cheapen it. Now, let us suppose that this process does develop in India. Then the consequence would be that no gold or a very small amount of gold would be remitted to India in settlement of its excess of exports. You have told us that, under your system, in the intermediate stage, the only possibility of creating currency would be against the import of gold. How in those circumstances would the currency be increased to meet the real demands of the country of greater trade, if as I suggested the surplus available is brought back into India not in the form of gold but in the form of goods for the development of the country?—Again, Sir, I have the same difficulty as I expressed to the Chairman, that it is a very long question. If you will kindly allow me to divide it—because each part of the question will again require an answer from me.

4482. I have put to you an assumption, and briefly put, it is this, that confidence having been created, the most desirable development takes place, namely, that India draws its surplus available abroad not in the form of precious metals but in other goods which are helpful to the development of its resources?—Up to that point, may I try to answer? If India draws its surplus—by the word "surplus" I mean after payment of all its liabilities, for not only goods but services, and also for such gold and silver bullion as the social customs of the people render necessary, because they will go on buying that as a commodity, it won't be cash—then, Sir, if there is still any surplus, it will, if India is developed, undoubtedly be laid out in capital goods as you say. I agree, Sir, but it rarely occurs in any country of which I have knowledge that the total exports in the wider sense are 100 and the total imports in the wider sense are 100; so what will happen, Sir, in the case that you postulate, namely that on the visible balance of trade India has exported 100, and India has imported 100 of goods, services and treasure, and there is not a cent left from which you can add to the circulation and to the currency—I do not see that difficulty, Sir, because that difficulty has never arisen in any country that I know of, in any gold-standard country. What will happen, Sir, is this. If currency is needed, and will come in, it will mean that loanable capital in this country will have more value; it will have a better value than say in England or America or other gold-standard countries, and bankers will see to it that money comes in not as settlement of the balance of trade only, but if there is no such money, and if they still see that money could be profitably used, that money will come as short-term capital. Bankers will borrow in the cheaper gold-standard markets, and, say, England will lend to India, so I cannot anticipate the condition of things that you fear, Sir, in which India will have bought cent. per cent., and there would be no surplus left from which currency could be created and which would lead to congestion; there would be no congestion *if* we are on a gold standard.

4483. I am speaking of the period of transition preparatory to a gold standard. I have started from what I understood your idea to be, namely, that the stock necessary to introduce the gold standard will flow into the country by natural processes. That is my supposition. May I just put another point to you. You said that other countries usually balanced their trade. This is to say, their visible trade is usually balanced, and no great amount of gold or precious metals move backwards and forwards?—I do not agree if you put that as a postulate.

4484. But you have just said?—That is not the condition for instance in America to-day, nor in Holland, nor in Sweden, nor in Switzerland; so if that is to be a postulate, then I cannot agree.

4485. Then I do not quite follow your point. I had understood you to say that you saw no difficulty for the country if a hundred per cent. of exports were balanced by a hundred per cent. of imports of goods, apart from gold. You then said——?—Not apart from gold; apart from gold which would come in as currency, not gold which would come in for social purposes; I include that.

4486. Yes, but we have dismissed that idea, that gold for social purposes will come into the country to any great extent, because I have accepted your view that if you promise the introduction of a full-fledged gold standard with gold in currency, confidence would be raised to such an extent that people will no longer invest their savings in metals?—No, Sir, I have not understood it that way. You have misunderstood me. Gold that is required for ornamental or social purposes will continue to come whatever happens.

4487. But that gold will not be available for currency purposes?—I agree.

4488. I am trying to see how the country will get stocked with gold, because if in another country trade balances without the introduction of precious metals, it is because those countries are stocked with their monetary needs?—I do not agree with that statement.

4489. But we are contemplating to stock this country with a sufficient amount of gold to be able to take up gold payments internally and externally?—First of all I interrupted you, Sir, by saying that I do not accept the statement that gold does not come into any country for payments because a particular country is sufficiently stocked with gold. Our experience of America absolutely contradicts that. America has now an enormous stock of gold, but gold still goes there every year, every month. So, pardon me for having interrupted you, I could not accept such a statement without very serious qualifications. Then, Sir, you next say that your chief difficulty is that assuming gold comes in as currency, where are we going to have a stock of gold to convert? Convert what, Sir? If to-day we have 200 crores of notes and we start with a backing of say 40 or 50 crores, if no gold comes in as currency, there will be no further notes issued and no further backing would be required. If gold comes in, if it is exchanged for currency cent. per cent., then every million of gold will increase the percentage. If it

does not come in, there is nothing more to be done because you do not want any gold, the liabilities not having been increased.

4490. But your circulation does not consist merely of notes? It consists of the note printed on silver and you have told us earlier in your evidence that it would be hazardous to say to what extent those notes printed on silver are in circulation, and some of those notes printed on silver may come back and gold may be demanded. Therefore we have to consider how the country is to be stocked with gold. You suggested as a probable development of things that if no gold were introduced and if all the exported goods were paid for by the import of goods, then the tendency would develop for loans to flow into the country and that these loans would be helpful. Well, there are two things. One is this, that those loans obviously cannot be of any use to build up the stock of gold which we need in order to stock the country with gold circulating media?—Why not, Sir.

4491. Because the loans might be withdrawn, and the minute they are withdrawn they are no longer available. There is a second point. You have told us that you would not issue any currency except on the basis of gold. I do not quite see how these loans will increase your currency, my point being that, unless you increase the volume of your currency with increasing trade, some disturbances must follow?—Disturbances of what, Sir?

4492. The disturbances that usually follow either from an insufficient volume of currency or a redundancy of currency?—May I now reply? Your question, Sir, has two or three big assumptions. The first big assumption is that year by year over a series of years India's trade is to be cent. per cent. balanced. I regret I cannot accept that because that is not our past experience and not the experience of any country that I know of, Sir. If you will kindly enlighten me, I shall be very happy. The second very big assumption is that money which will flow in as loans will go back shortly so that that gold will not be available for currency purposes. I beg to differ there again, Sir. When a bank brings in a hundred thousand pounds because it sees its way to lend to a client fifteen lakhs of rupees, the first thing that the Bank will have to do is to put that gold through the mint or through the Currency Department in order to get local currency. So the gold—I hope you agree, Sir,—has in any case first to go through the Currency Department. Then we come to your third assumption, that when the loans have got to be repaid, the gold will be all withdrawn. There also, Sir, I am unable to accept your position. It may be that the repayment may be in the following year not in the shape of currency gold being withdrawn, but if in the following year it balances cent. per cent. as you assume, the cent. per cent. would include the liability for the repayment of that loan through exports so that the gold which came in would remain in the Currency Department. It would not disappear. Then regarding the last assumption that in no case taking everything that you say, cent. per cent. of imports and exports, no gold would come in and all loanable gold would be withdrawn, you assume, Sir, that in the face of all that we shall declare that we are going to give gold for rupees, that is, take the liability for the conversion of the internal currency, which is another assumption, and I believe in reply to the Chairman also I tried to make it very clear that we cannot accept that. We as practical business men have come to the conclusion that we cannot undertake liability to convert the rupee stocks into gold until after a space of years we have resurveyed the situation and found that we are sufficiently strong to do so, so that, Sir, I cannot agree either to the assumptions or to the conclusions that you draw from it.

4493. Well, Mr. Madon, if one has to take so important a decision, one has obviously got to take into account possibilities which in the view of some of us at any rate may not be so very remote. I think you have cleared my mind completely by saying that your whole proposition is based upon a policy of not introducing a full fledged gold standard until you have stocked your country. Therefore even if that process which you suggest were to take 20 years, no misfortune would happen because all you would say is this, that the country is not fit to introduce a gold currency because it so happens that we have an insufficient supply of gold currency?—I would not say that the country is not fit. If I were to put it I would say that the country had the misfortune to have had such a management that we are loaded with 300 crores of token metal coins. If you want me to put it that way, I am obliged to put it. I think India is the one country that is most fit for the gold standard.

4494. But you see circumstances may be very unfortunate; but there we are. We have three hundred crores of rupees in circulation and we have got to get over the difficulty. There is only one slight point to make clear and it is this. Of course in all these things when there is a country borrowing, whether it is for public services or for private enterprises, one must surely in one's calculation contemplate that the money lent to the country may be withdrawn and one obviously must make preparations, and therefore any gold coming into the country through contracting loans abroad must, at any rate in the minds of these people, be earmarked as a possible drain in the future. Do you admit that?—May I say that this is another very big assumption? The people who would borrow would not be earmarking the gold that came in as the gold that would be repaid. They would be earmarking their future services and goods for return which will not be gold.

4495. But in a gold standard country one has got to do it?—It is a very big assumption for India.

4496. Would you suggest, therefore, that if the country borrowed heavily, it would to the extent to which the loans are repayable so adjust its production as to be able to have a surplus available to meet that debt?—May I point out, Sir, I had begun by pointing out that such a cent. per cent. adjustment of trade was what I could not expect. But even after that assumption, when I talked of a banker bringing in 100,000 pounds because he had a client, it may be that the client was going to lay out that 100,000 for productive purposes.

4497. That is if the amount were lent on long term?—It may or may not be on long term. As far as the banker is concerned, it may be on short term. But in the next or third year the balance of trade of India may have sufficient surplus to pay off that loan and the adjustment would not be apparent; but it would be the position that some part of India's export trade in the next or third year would have found that money which will not be gold.

4498. There is only one other point. We know that gold is being dealt in in India very freely. A large section of the community makes it its business to deal in gold bullion, and the chief market is Bombay?—You mean by dealing, buying and selling?.

4499. Yes?—Then I would not say a large section.

4500. You would say that the bullion market is a very important market in India?—Only in value, not in size. Last year they dealt in 60 crores. In the value I agree.

4501. Now are those dealers in the habit of retaining a stock of gold?—Might be, like every other dealer.

4502. Like every other dealer. Now we know there are records available as to the holding of silver in this country and also in some of the bigger places in China. Is there any record available as to what stocks of gold are held in Bombay or in India generally?—You mean held speculatively or as stores of value?

4503. The figures are given by Montague?—I do not know where he gets his figures from.

4504. Every week there is a statement of the amount of silver held in India and the amount of silver held in Hongkong, &c.?—That is merely in the Currency Department. He cannot give and does not

give any figures of the amount of silver in the country.

4505. He does give something else?—He gives the number of bars that are available in the open market in Bombay and Calcutta, because that every dealer knows, every banker here knows. But that is not the same thing as the total number of bars that may be held all over India.

4506. I follow that?—You have not got here that figure anywhere in India, and I do not think it is possible. In India, particularly in up country areas, these are a very convenient form in which wealth may be held in store until wanted. So you might find that in every second or third household in certain trading localities, they might be keeping a bar or two, merely keeping, just as you would keep your notes or money in the bank.

4507. I do not want to trouble you with that. I only want to know whether there are statistical data as we have them in other countries of the stock of a commodity held by dealers. You can ascertain any day what the stock of lead, what the stock of tin, what the stock of zinc is?—Even lead and zinc, you can find what is held in London. If you speak of tin, how much is held in Europe,how much in every factory, nobody knows.

4508. All I want to know is whether any such figures are available in India?—Not for gold and silver, except what is held in the central markets.

4509. (*Sir Maneckji Dadabhoy.*) It is your opinion, the Chamber's opinion, I understand, that every time a ratio is altered, it more or less causes a certain amount of economic disturbance?—Yes.

4510. But the intensity of that disturbance is a factor to be taken into consideration, and if we come to the conclusion to go in for a lower rate, you do not think the conditions, the conditions during the last 16 months, have been very intense as to cause a great economic disturbance in the country?—I have tried to make it very clear in my reply to the Chairman that I do not think that the disturbance will be at all important.

4511. Do you think Government would have been in a position to maintain this 18d. ratio had it not been for the preceding four good harvests?—There you ask an opinion. Commercial opinion in Bombay is that it was mainly the successive good harvests that enabled the Government to continually bolster exchange up. But it is not only in Bombay, Sir, if I may be permitted to quote the opinions of Calcutta commercial magnates, one of these gentlemen, Sir Campbell Rhodes, who was a representative of the European Commercial Community in Bengal, expressly stated during a debate in the Council that he felt very doubtful whether 1s. 6d. rate could be maintained were it not for the fact that we had three good seasons. That was I believe early this year or end of last year.

4512. You agree with that?—I think that is correct in any case, Sir.

4513. To put it in a different way, it would be far easier and simpler to maintain our rupee at 15 to 1 ratio than it would be at 13⅓ to 1 basis and the reserves that we now have got would be much ampler for the purpose if the rupee revalued at 15 than at 13⅓?—That is the only thing that I can say.

4514. You know now that the Government of India have lately adopted a policy of protection in the matter of protecting Indian industries. This higher level of exchange has the effect of neutralising that protection which the Government gives to industries. I will give you a concrete instance. I give you the Tatas' case. The Government have given them a certain amount of protection. That protection has been rendered practically of not much good, because the Belgian market on account of the 1s. 6d. rate of exchange is able to dump steel and iron in this country?—That would lead us into a very big question; but for the benefit of the Commission, I am only drawing attention to one fact. Last May, June, July, the Tariff Board was set to work to decide what bounty should be continued to the Tatas. There are two kinds of help as you all, Gentlemen, no doubt know, one a tariff duty and the second a bounty. The Tariff Board investigated and came to the conclusion that it should be Rs. 18. The Government thought that they were pampering the Tatas altogether too much, and they gave Rs. 12. I beg to draw the attention of this Commission that the price of steel is Rs. 150 to 160 per ton. If this country goes back to 1s. 4d. rate, the 12½ per cent. difference on 150-160 would mean Rs. 20 a ton. If Government only go back to the normal ratio, I am sure Tatas would thank them heartily and hand them back their bounty.

4515. That is neutralising the effect of that?—Not only neutralising, but it goes much further. That is the unfortunate part of it.

4516. So far then as the internal industries are concerned, for the advancement of internal industries, I understand that a lower rate of exchange is necessary?—I would not use the word "lower." If you will pardon me, it is not a question of a lower rate or a higher rate. It is a question of the rate on which the capitalisation of the industry had been based. For instance, Sir, if a cotton mill has cost 150 lakhs of rupees, when it was built in 1913-14 or something like that, it would have meant a million pounds. It could, it must have laid out its programme of being able to compete with a similar cotton mill elsewhere that had been capitalised at the same cost. By this change that original capitalisation of 150 lakhs of rupees becomes something like a million and two hundred thousand pounds, and thus you appear immediately over-capitalised without having done anything whatever as against your competitor in the foreign country. I say if the ratio adopted had been 20d. in 1878 or 24d. in 1872, it would not have mattered; that ratio would have done no harm. The harm comes in from adopting a particular unit and then varying it.

4517. Now how is this deficit in the Government budget to be met? If we revert back to 1s. 4d. it will cause a large deficit in the Government revenues. How would you propose to meet that, by taxation?—I do not agree that there will be any important deficit. That argument also is merely a repetition of the argument put forward 20 years ago before the Fowler and the Herchell Committees; but it does not help to-day. 25 or 30 years ago land revenue which could be modified only once in 25 or 30 years was a very large source of revenue. To-day it is a very small part of the total revenues of the country. Customs are a very big item, a great deal bigger than land revenue. Income-tax is a very big item. Railway revenue is a very big item; and so on. What we feel is that there would be no loss to the finances of the Government if we reverted to the ratio that prevailed for so many years, because first of all the customs revenue would automatically expand for the greater part of it by 12½ per cent. The duties are all *ad valorem*, so any goods that are worth say a hundred pounds and come in to-day at 1,300 rupees and at 12½ per cent. paid to Government, say Rs. 156 would come in at Rs. 1,500 and pay to Government Rs. 180. I simply give that as one instance of how the thing would operate, so that I think if the position is carefully considered under each head of revenue it will be found that the fear that there will be a loss to revenues is unfounded, excepting perhaps that there might be a slight discrepancy but it is not on account of such discrepancies that you should perpetuate a wrong because discrepancies do occur in the Budget, you estimate for so much in revenue under one head, and you find it 50 or 100 or 200 lakhs less or more. I would then put my answer in two parts, the automatic change in the amount of revenue because of the higher values at the 1s. 4d. rate and I claim that that would make up practically the whole of the loss of revenue because income-tax also will be similarly affected. As for other items that is a much wider question, but if there is any deficit, which I am hopeful will not occur, that will be covered up by the normal expansions of revenue.

4518. Is it a fact that the gold value of commodities has not induced the European countries to change their ratio from time to time?—I know of none excepting the insolvent countries who could not help themselves.

4519. (*Chairman.*) Mr. Madon, we are putting a very heavy strain on your time. What I was going to suggest was that possibly Mr. Naranji could relieve you in reply to any of the questions?—The questions go into details and Mr. Lalji told me to tackle them and he would point out to me wherever he thought that we should modify them.

4520. (*Mr. Preston.*) The questions I am going to ask you are simple ones and only connected with the actual practice of gold shipments. The first question I ask is—I understand in your system these gold shipments will not be required until Council Bills have been exhausted—shipments from London to India?—They cannot because that is part of the goods and services that India buys.

4521. The next question I shall ask you perhaps personality will come in but I want to do it because I think on your side it will make your answer clearer to Sir Henry and also possibly explain to him some matters that go on in the Bombay market to-day. It is very opportune at this time as one sees from the railway the cotton being collected and coming down to Bombay. Supposing a Bank in Bombay were to wire to London office and say I want 50 lakhs of rupees to advance for cotton in the cotton districts and the cotton comes down to Bombay to be shipped to Japan extended over a period February—March—April. Now under your system council bills being no longer available they have got to ship gold?—Agreed.

4522. Assuming they ship one million gold to lay down at 1s. 6$\frac{3}{16}$d. and Japan bills come into the Bombay office in January—February—March as the cotton goes out from here to Japan, the agent here will buy Yen bills at a rate. Those Yen bills when they mature in Japan will be converted into sterling and if the Yen funds ultimately result in getting 16$\frac{1}{4}$ again six months hence in London, all we have got to consider is how much interest we are going to earn for a million of gold which was shipped to Bombay in the first instance. Is that correct?—Yes.

4523. Just one more question. Advocates of the gold currency advocate from time to time that we should bring to India all the gold in the gold standard reserve and also in the paper currency reserve, and they have stated as a reason for that that our good friends in India like to see gold on the spot, do they think that it would be a great inducement to the people to take notes. That has been advocated, has it not?—Well, Sir, the reply would mainly be a question of psychology not of currency science. What has happened in the past is that India's gold, even when it came out direct to India from Australia or Africa, was diverted to London and kept there for a time, then converted into sterling and then even the gold that we held at the beginning of the war disappeared and we got paper on which ultimately we made very immense losses. If after all these experiences the Indian public wishes that it should have possession of its own gold you will pardon it for doing so. If the world changes so much that we can trust our neighbours then possibly that fear may disappear but even if I trust my neighbour absolutely, if it comes to a question of life and death I really don't know what he will do or I will do. The war created that question for England and the Allies; the gold was there, they had to take it and they took it without so much as "If you please." If after all that experience Indians say they cannot allow their gold to go elsewhere but must insist on its being in India, I hope you will not think that they are making any unreasonable demand, Sir. Then there is a side reply, Sir, which you will permit me to put forward. The gold that goes to England is not England's gold. You will pardon me for saying so; I am making a rather emphatic statement; but if you will reflect for a moment India's total exports are 360 crores and her total imports are 220 crores; the remaining 140 crores is cash that India has a claim to from different countries of the world. By cash when we are talking of international payments we mean gold. So it is India's gold that should have come to India that goes to England. So even if it was a question merely of what should be done, then you should not take it that the gold is England's; and if India is anxious to take it away it should not be prevented. You have got to see that the gold is India's first. If India did not belong to the British Empire, England would not get an ounce of gold. We give England control of 30 to 40 million pounds in gold through India's balances, and if that is the case then is it not reasonable that after having given England control of so much gold for their council bills and other services, if we have something left we should bring it back to India?

4524. I appreciate your reply. Now what I want to ask you is this. To move such a large amount of gold would create a world disturbance, would you approve of it?—Large amount from where, Sir?

4525. From London to India?—In exchange for what?

4526. For the mere pleasure of bringing it from London to India?—Is your question that we propose to convert our gold exchange standard and paper currency reserve into gold?

4527. To bring out the gold for the mere pleasure of bringing it out, attended as it would be with such disastrous results, would that meet with your approval?—The Chamber has not said that anywhere. What we said was that the Government should accept it as a policy that in future gold should not be diverted from India to other countries, not even to London. Whatever is there already may remain there until the Government sees its way to conveniently either bring it out or use it up. The Secretary points out to me that in paragraph 18 (iv), we say that the location of the reserves should be in India at least as regards the gold part of it, which implies that we accept that the sterling part of it which is there will remain there for the present.

4528. Let me just go on. Then I assume naturally that under your scheme the idea is gradually to attract gold, as it is possible to get it, to India for the ultimate purpose of a gold standard and a gold currency?—The only reply I can make, Sir, is that my Chamber as commercial men do not wish for any undue disturbance of the state of affairs provided the principle and policy are accepted.

4529. Then what I want to ask is this, the interest on the securities in the gold standard reserve in London and the interest on the securities in the paper currency reserve in London amount to 2$\frac{1}{2}$ million sterling total each year. That money to-day goes into the revenues of India. In the old days the interest on the securities in the gold standard reserve was added to the said standard reserve?—No, only the interest on the securities in the gold standard reserve. There are two parts in your question. In the paper currency reserve there were sterling securities also even in pre-war days and my impression is that the interest earned on the paper currency reserve was always taken to revenues but the interest earned on the gold standard reserve was allowed to accumulate.

4530. It was added to the capital fund of the gold standard reserve. Then what I want to ask is, as 2$\frac{1}{2}$ millions annually is collected, if that should be converted into actual sovereigns shipped out to this country and retained here for the purpose of the gold standard, in ten years' time you would get a fund of 25 million pounds, in 20 years' time you will get a fund of 50 million pounds; and there would be no disturbance to world's markets. Would you agree to that?—I would agree, Sir.

4531. (*Sir Alexander Murray.*) May I ask Mr. Madon some questions in his private capacity and not as representing the Indian Merchants' Chamber and Bureau?

4532. (*Mr. Madon.*) If it is in my personal capacity you will kindly allow it to be done when I am again before the Commission, Sir, because I do not wish to complicate my answers as representative of my Chamber with my answers in my private capacity.

4533. (*Chairman.*) Perhaps your questions might be put to him in his personal capacity later. It might be rather difficult for him to answer such questions now, when he is appearing in his capacity as a representative of the Chamber.

4534. (*Sir Purshotamdas Thakurdas.*) If you do not mind, Mr. Madon, I propose to ask a few questions of Mr. Lalji Naranji, because I think the Commission would like to have the benefit of his experience as a man of standing in the commercial world in Bombay.—I have no objection.

4535. Mr. Lalji Naranji, you are one of the senior partners of Messrs. Muljee Jaitha & Co.?—Yes.

4536. How long has that firm been in existence?—Nearly a hundred years.

4537. You have branches all over India for cotton and seeds and all sorts of raw produce?—Yes.

4538. You also have your own ginning factories and are in touch with the rural districts of India?—Yes.

4539. May I ask if you are intimately connected with some important Indian States and that at times you act as their agent here in their financial transactions?—Yes.

4540. You are also a representative of the Indian Merchants' Chamber on the Bombay Legislative Council?—Yes.

4541. Could you tell us in the light of your experience, from the various points of view which your position brings to you, what the people of India would think if a gold exchange standard were introduced in the following manner: there would be gold in the treasury, but the gold would not be available for internal currency purposes while available for export where necessary: gold notes would be circulating among the people as inconvertible notes and the notes would have a backing of gold; and there would be gold in the treasury. Could you tell us what would be the effect on the public of India of an exchange standard of this nature?—I understand your question is that if the notes are tendered they will not be convertible into gold; and so long as they are not convertible into gold they will not command the confidence of the public as Mr. Madon has just now said. All that the Indian population, the commercial as well as the rural population, wants is that they should be convertible into gold; notes or coin or whatever it may be, it should be convertible into gold; otherwise it will not create confidence which a currency ought to command.

4542. Unless gold notes are convertible into the precious metal in the same manner as the rupee notes to-day are, you apprehend that those notes will give a set-back to the popularity of currency notes even as at present existing?—Yes.

4543. Could you tell us why it should be so?—Because at present their experience has been that the rupee, though worth ten annas, is really valued at seven annas, and they have no faith in the present rupee currency, and that is the reason why they are now dealing more in gold. Even the import of gold has something to do with this, because they have no confidence in the present silver rupee; they calculate it, as I have already said, at seven annas; they wish that there should be a gold currency. If there is a gold currency, any time they wish to convert their notes into gold they could do so and there will be more confidence.

4544. When gold currency of this nature is put into circulation, what do you think would be the effect on the people? Would it lead to more hoarding or would it help the hoarded metal to come out, or would it discourage the hoarding of precious metals?—The word hoarding is a misnomer. As regards this hoarding I would refer you to the speech of the late Sir Vithaldas Thackersey so far back as 1912 or 1911. There is no hoarding in Bombay in the proper sense of the word.

4545. We will talk of all India, if you do not mind?—You said that it would affect the hoarding of gold; what I want to explain is that the word hoarding has been a misnomer; there is no hoarding in the practical sense in India; I say it because you as one of the leaders of the Hindu community will bear me out, that out of the 350 millions of the population nearly 240 millions are Hindus and the practice of Hindus is that at the time of their marriage the people keep certain ornaments for their use; it is not hoarding, I would call it a necessity; and ornaments even are not given as a hoard, but as a sort of property to the woman; the Hindu women have no right under the Hindu law for inheriting any property and all that they are given for their maintenance is these ornaments that are given to them. So you will see that there has been no hoarding in the proper sense of the word. Another thing is that if a gold currency is introduced as it is wanted by the country, I am sure that the dealing in bullion will not be so much as it is now because there will be the backing of gold and the notes will be convertible any time. On this question I would remind you of one instance; if you remember during the war there was a time when rupees were not available. Then the silver coins went to $12\frac{1}{2}$ to 20 per cent. premium and they were offered. As soon as they became more freely available, notes began to be used so much that in the cotton districts with which I am connected there has been a great change and they are accepting notes because they know that these notes are convertible into rupees any time; so in the same way if the notes were convertible into gold, less bullion will be imported into the interior than now.

4546. Would you mind naming the cotton districts with which you are connected?—Khandesh, Berar, Barsi, Miraj, Guzarat and Kathiawar.

4547. You say in paragraph 17 of the memorandum: "My Committee would also urge the greater development of banking facilities all over India as they feel not only that the present facilities are still inadequate but also that such development will very much facilitate the smoother working of the Currency system in India." What is it that you had in mind, and who do you think are the persons who should give the lead in regard to this greater development of banking facilities?—Properly speaking there are no banking facilities, except for the last five years, when the Imperial Bank has opened about a hundred branches. There are so many villages from which we have to buy cotton (I am interested in cotton only), but currency is not available because there are not any banking facilities. The small shroffs who were doing this cash business before are all absolutely wiped off because of the activities of the banks and because of the new rules with which they are not conversant. Banking was done fifty years ago by small people who are not now found even in villages. The difficulty is that you have got to take cash or notes from the big towns, and you have to collect and pay money for the produce that you get from these districts where there are no banking facilities. Neither hundis nor cheques are available; you have to take cash in the form of notes; and if they are not accepted you have to take rupees in coins. The underlying idea in this is that we want more banking facilities, that is, more branches or more encouragement of funds and more easy money so that the small people who have now left off banking may commence it again. Of course it may not be paying to the Imperial Bank to have branches in small villages or to the other banks to do so; the other Indian banks also can, if they attempt, give facilities, but I think with their resources what they are doing is quite enough. Banking has not been developed as much as it ought to have been done, compared with other countries. Of course there are seven hundred thousand villages in India and if you

look at it you will see that there is not a single branch in a village; there are one or two exceptional instances where the Alliance Bank had branches which have been taken over by the Imperial Bank; but even in towns you do not find facilities because the charges are heavy. The charges of the Imperial Bank for transfers are so heavy that sometimes people offer to take risks to even carry their own coins and their own notes. Therefore we say that if more facilities are given in such places where the produce can be had it will supply a great need.

4548. Would it be a correct inference from what you have said to say that in the opinion of the Chamber's Committee the whole process of provision of banking facilities for the country is in a state of transition? It is a question of going over from the original Indian methods of banking to the Western and the progress must necessarily be slow?—Yes, certainly.

4549. One question I would like to ask Mr. Madon in connection with a reply which he gave to Mr. Preston in connection with the interest on the two reserve funds. Mr. Preston's last question was whether you would like that interest to be accumulated and to be sent to India in the form of gold every year. If I understood your reply correctly, you said that you agreed with him. You are aware that these two items are at present being credited to the revenue accounts in the budget?—(*Mr. Madon.*) Yes.

4550. Do you think that a hole in the revenue income of the Finance Member's budget could be so lightly made without disturbing the budget?—I do not think I understood Mr. Preston to say that this should be done immediately in the first or second year. Further, I understood the drift of his question was that if it was a matter of two or three million pounds a year of gold that we wanted to ship out from England, then there would be no disturbance to the London Money Market or to other markets, and if I understood Mr. Preston aright the source from which these $2\frac{1}{2}$ million pounds would come was not material. The question put to me earlier, by, I believe Mr. Preston also, was whether the Indian Chamber wanted the sterling securities to be immediately converted into gold and to be all brought out; I said "No," and then the question followed. So it might be that the interest might remain; but the underlying idea, that out of the securities we might realise two or three millions a year and bring that out and that would not create a disturbance, could be carried out. I believe that was Mr. Preston's suggestion, that a small amount of gold should be taken away out of England without creating a disturbance; whether the gold came from the interest or from the principal sum would not matter to you, Sir?

4551. (*Mr. Preston.*) Of course from the inception of the gold standard reserve until four years ago the interest was always credited to the capital fund. Of the 40 million pounds in the gold standard reserve fund to-day, one-third is represented by accrued interest so that in taking out the accrued interest one was not robbing the fund of its original intention, if I may so call it?—Yes; but if I understood Sir Purshotamdas Thakurdas aright, we would be robbing the Finance Department of a particular source of revenue to-day; whether that source was there before or whether it was a legitimate source is a different question.

4552. (*Sir Purshotamdas Thakurdas.*) I only wanted to remind you of your answer that a gold standard reserve costs nothing; if it necessitated what Mr. Preston just now said, namely, to take off from the revenues such a large amount as this, you would call it an immediate cost to the taxpayer?—Well, Sir, that would compel me to go back into some history.

4553. I would leave it at that at present. I hope you will be able to clear it up later?—If you please, you might reserve it for my personal evidence, because there is a history behind it.

4554. Just one more question. It is in connection with the Chairman's question to you regarding the difference between the control on the central bank as people wanted it in the West and the control on the central bank as the Chamber's committee here want. You want more Government control, and the Chairman pointed out to you that in the West they wanted to get away from Government control and wanted popular control, or at any rate control by non-government persons?—Will you permit me to point out one thing here? I may have misunderstood the Chairman's question, but I don't think that is the way to put it. What he said was that, although it was considered a desirable thing for central banks to be divested entirely of Government control, that thing existed only in England and on the continent government control was the practice.

4555. (*Chairman.*) I have not myself, I am afraid, adequate information to venture an opinion to that effect, Mr. Madon. It would require more knowledge than I possess perhaps of all the European systems. I should not care to generalise on quite so large a scale?—Yes, Sir, you would not care to generalise. In any case what I tried to point out in my reply was that such Government control as there is to-day in the shape of representatives on the central board of the Imperial Bank would not be excessive and that the United States considered even a far greater control necessary and that we in this country in the first stages might continue to have some such control through officers who would be in very close touch with the working of the bank.

4556. (*Sir Purshotamdas Thakurdas.*) Do I understand that the committee of the Chamber feel that in asking for Government control they are only asking for control by a body which is responsible to and perhaps at times responsive to the Assembly?—Well, Sir, this has not been put in so many words either in committee discussions or elsewhere, but that was the feeling that if Government representatives were there and if the Assembly did want to get information on any point, they could not be turned down by saying: "Gentlemen, this is a private bank; we have nothing to do with it; we don't know anything about it; if you want information please go to it." The Assembly can always say: "Here are our own officers on the board. They are there to represent our interests. It is their duty to tell us how things are going, and it our right to know." I believe that is the idea at the back of the minds of those who are wishing that this kind of representation should continue.

4557. (*Sir Reginald Mant.*) Mr. Madon, just one question. You spoke of having Government representatives on the board of the bank?—Yes, Sir.

4558. Have you considered how that arrangement could be provided? At present, the Government has experts in the Currency Department who are in close touch with the bank. But I understand that under your scheme the Currency Department would be taken over by the bank. The Currency officers would be officers of the bank?—Yes, Sir.

4559. Where will the representatives of Government come from? How would Government be kept in touch with the bank?—The point is not very material, Sir, if you will pardon me, from my point of view. The officer of the Currency Department is on the central board merely because he is one of the most important officers of the Finance Department to-day. If the Currency Department becomes a department of the Imperial Bank, then the gentleman representing the Finance Department of the Government of India on that Board would be some other gentleman in the Finance Department, or it may be somebody from some other Department that the Government of India think right to put there.

4560. But do you mean that an officer of the Government of India would be permanently stationed at Calcutta or Bombay for that purpose?—It is not necessary, Sir. The Central Boards don't meet every day.

4561. Or (if I might finish) do you mean that an officer would be sent down from Simla or Delhi, as the case may be, to attend board meetings?—It would be that, Sir.

4562. I only wanted to clear up what your intention was?—I hope I tried to make clear in my earlier answer that we don't want that officer to continuously interfere with details of working, but only with questions of policy.

4563. And it is by that means that you would keep Government in touch with the working of the bank?—That is the idea of the Chamber, Sir.

4564. (*Chairman.*) We have had a very long meeting, and I must express to you our thanks for your very full assistance in the matter.—Thank you very much, Sir. We are only doing our duty. We have got to put our case before you gentlemen.

(*The witnesses withdrew.*)

Mr. Kikabhai Premchand and Mr. Maneckial Premchand called and examined.

4565. (*Chairman.*) Mr. Kikabhai Premchand, you have been kind enough to come and assist us to-day and you are accompanied by your brother, I think, Mr. Manecklal Premchand?—Yes.

4566. You have been good enough to furnish us with a very concise memorandum* setting out your opinions upon the matters referred to us. For the sake of our record might I ask you, Mr. Kikabhai Premchand, from what point of view you drew this up; you are engaged in trade in Bombay?—Yes, as brokers, dealing in exchange, bullion and finance. I would prefer, Mr. Chairman, that you allow my brother to reply on exchange and bullion because he manages the exchange and bullion Department of my firm. As far as exchange and bullion is concerned he will givo a joint opinion.

4567. The general questions I desire to ask on your memorandum should, I understand, be addressed to you, Mr. Manecklal Premchand?—Yes.

4568. You have no doubt been engaged for a substantial period in this form of industry in the city of Bombay?—Yes.

4569. Referring to your memorandum, I will ask you a few questions tending to show the points you lay special emphasis on and to elucidate any matters which may not be at first sight perfectly clear. If I may say so, your memorandum is so precise that it will need very few questions on my part in order to elucidate the matter. You have been good enough to follow the general form of the suggestions as to evidence which were originally put out on behalf of the Commission and to frame your memorandum in the form of answers to the suggestions on the points raised in that memorandum. Taking them in order, I understand it is, first of all, your opinion that, though the time will never be completely ripe for a conclusive solution of such problems, the present conditions are sufficiently normal to permit definite steps to be taken with that view. I understand that you lay special emphasis upon the circumstance of the re-establishment of the relation between the pound sterling and the gold sovereign in England. Let me ask you, Mr. Kikabhai, whether there is, in your opinion, any foreseeable circumstance in the currency or credit situation of the world at large such as might tend to disturb any settlement that was arrived at as regards Indian currency problems, and for which it might be said that it would be prudent to await the result before attempting to establish any new ratio for the rupee or the basis of an Indian currency system?—That is an exchange question; you might kindly address Mr. Manecklal. (*Mr. Manecklal.*) There is nothing at present, Sir.

4570. Secondly, as regards the question suggested as to the relative importance of stability in internal prices and in foreign exchanges, you express the opinion that the main thing to be desired is the smallest possible variation in the prices of essentials within the country; and you look upon this, no doubt, as a factor of more general importance to the people at large than stability in exchange?—Yes.

4571. That is an opinion to which I will refer later in connection with the ratio to be recommended for the rupee. You then analyse with precision the effects of a rising and a falling rupee. Might I summarizo what you say as to that thus, that you are of opinion that the general effects of a rise or fall in the exchange value of the rupee upon trade, industry and the people of the country are temporary effects which vanish as soon as prices and wages have readjusted themselves to the new level of exchange?—Yes.

4572. And it is upon that opinion that you base some further opinions which you express?—Yes.

4573. Referring particularly to the effects of a falling rupee, I understand you to express the opinion that a stimulus is given thereby to the export trade of the country, but that this is only a temporary and artificial stimulus to trade and that it is followed by a period of depression. Is that your experience?—Yes, sir, that is my experience.

4574. Of such movements of the rupee in the past?—Yes.

4575. I understand therefore from your memorandum that this opinion is not only, if I may put it thus, an academic one but based upon actual practical experience of Indian trade?—Yes.

4576. You finally arrive at this conclusion: that you say there is no magical level for the rupee?—Yes.

4577. What do you understand by that phrase, Mr. Premchand? What do you mean when you say that there is no magical level at which the rupee should be fixed?—There is no level at which all problems of Indian finance can be solved. That is why I say, there is no magical level.

4578. I should rather understand you to mean by that that there are, in your opinion, no abstract arguments from equity or justice to lead you to select one level rather than another, but that you must judge the level to be selected entirely on questions of practical convenience and expediency?—Yes.

4579. Indeed as you say, "the desired stabilization should be accomplished with a minimum disturbance of existing economic and financial conditions"?—Yes.

4580. From that I should gather it is your opinion that a disturbance of the existing economic and financial conditions is, in itself, an undesirable thing?—Yes, it is very undesirable.

4581. What weight would you attach, as against the undesirability of that, to any arguments in favour of a higher or lower level than the existing level based upon grounds of some other consideration than immediate convenience?—It will disturb public confidence, which is very essential for a sound monetary system, when thousands of contracts have been entered into; people have got more or less confidence that the present rate will persist. The rate is there.

4582. That rather leads me to the next question I was going to ask. Towards the close of your reply to question (2) A, you arrive at the conclusion that "In view of the comparative ease with which the rate has been maintained at or about 1s. 6d. during recent months, we should suggest that stabilisation at that level would be most feasible." I gather therefore, that your argument as to the undesirability of disturbances, their practical inconvenience, leads you to the conclusion that the rupee should be stabilized at whatever figure it stands at the prosent time, and that is round about the 18d. rate?—Yes.

4583. I gather also that your argument may be expressed rather in this way, that your preference which appears here for the 18d. rate is not based so much upon any positive merits of that rate as the negative merit that there will be a disadvantage in fixing it at any other rate because of the disturbance?—Yes.

* Appendix 23.

10 *December*, 1925.] Mr. KIKABHAI PREMCHAND and Mr. MANECKLAL PREMCHAND. [*Continued.*

4584. Could you enlarge that answer a little by telling us, in the first place, what would be the nature of the disturbances which would be involved in selecting a lower rate than the prevailing rate of 18d.?—It would disturb first of all public finance. The Budget has been based on 1s. 6d. Secondly, this rate has been the basis on which thousands of commercial contracts, both export and import, have been made. Lastly, it would create a lack of confidence in the market and curtail legitimate trade, and these are the practical grounds on which I advocate no change from the present rate.

4585. Let me put to you another point of view. It is this, that the 1s. 4d. rate was a rate that prevailed for long; that long term contracts were entered into at that rate; that the fixation now of another rate than 1s. 4d. would involve a disturbance of the relative burdens under those long term contracts; that the volume of interest under these long-term contracts should be considered rather than the volume of interest involved in contracts entered into at the 18d. rate, and that for that reason the 1s. 4d. rate ought to be selected in preference to the 1s. 6d. rate. Let me ask your opinion on that, especially directing your attention to assisting us, if you can, as to what is the relative volume of interest involved in the still outstanding long-term contracts entered into at 1s. 4d. compared with those short-term contracts entered into at 1s. 6d.?—The 1s. 4d. contracts have run for a very long time, and in my opinion the majority of these have readjusted to present conditions. Accordingly a change from the present level of 1s. 6d. would cause greater disturbances.

4586. It is impossible then to express any opinion as to the relative importance of the interests involved in the long-term contracts and in the short-term contracts. Of what nature would these long-term contracts be—mortgages?—They are very few here on the sterling basis. Most of the mortgages are on the basis of rupees except sterling debt and other Government loans in London.

4587. With regard to a point indicated in your last answer but one, you referred to the almost violent disturbance which has prevailed in the gold value of the rupee since the date when the 1s. 4d. rate has prevailed. That is the disturbance during the war period and post-war period. During that period there were violent fluctuations?—Yes.

4588. If I understand the implication of your answer it is this—(or have I misunderstood it)—that the disturbances already made as regards contracts entered into on the 1s. 4d. basis have been so great that the difference between 1s. 6d. and 1s. 4d. now is comparatively negligible?—Yes.

4589. With reference to your reply (3), let me put to you this question. Supposing the 1s. 4d. rate were to be selected for stabilisation now, have you been able to consider by what financial process that rate could be re-established, and what it would involve?—Well, it will involve a heavy loss.

4590. That is rather a consequence of the process. I was directing my attention for the moment to what steps could be taken in order to put the rupee upon a 1s. 4d. basis. How would one set about it if one selected 1s. 4d.?—Once it is definitely announced that 1s. 4d. is to be introduced the market rate would slump at once to 1s. 4d. It could not possibly remain at 1s. 6d. or even 1s. 5d.

4591. It would follow from that that any attempt at a gradual readjustment would, in your opinion, fail?—Yes. If people knew that 1s. 4d. is to be the official rate speculative activity would immediately depress the rate to that level.

4592. Will you describe in a little more detail from your practical experience (which would be of special interest to us) what would happen if Government stabilised the exchange at 1s. 4d.?—At once when the result is known in the market there will be a rush to buy exchange, especially from importers; at the same time exporters would hold off and internal prices would be so disturbed that there would be an immediate rise in all commodity prices. Such a move would disturb the equilibrium of financial machinery in the country.

4593. What will be the disturbance to prices?—Internal prices would go very high.

4954. Supposing things go as you describe, what would happen as regards the rate to which the exchange would fall? Would it be easy to keep it at 1s. 4d.?—If Government establish 1s. 4d. and sell councils and reverse councils, it may be able to keep it at that.

4595. You suggest to me as a possible consequence that the rate might go even lower?—Yes.

4596. What would be your opinion on that?—If Government is not selling reverse councils, the rate might go even lower than 1s. 4d. temporarily; but as our balance of trade is generally favourable it would rise again and if Government did not sell council bills at the upper gold point, the rate would rise further.

4597. It would put it up to your fixed rate?—Yes.

4598. That suggests the possibility of market fluctuations before it settles down?—Yes, because a lower rate creates, first of all, a demand for rupees.

4599. Supposing we take the converse picture and contemplate the possibility of fixing the rate higher than the present rate, what practical measures should be adopted to raise the rate of the rupee?—That means Government will have to refrain from operating at the present rate.

4600. Some measures would have to be taken. Supposing it was fixed upon a higher rate—(let us take as an illustration 1s. 8d.)—how would the machine have to be worked in order to raise the rate to that point?—You should sell first of all reverse councils to bring up the market to that rate, and then it is doubtful if the rate could be maintained at the higher level.

4601. Just as in the first case you would have to take some measures for increasing the internal currency, so in this case some measures would have to be taken for reducing it?—Yes.

4602. What effect would that have on prices?—Fall in prices.

4603. In your opinion, would it be as quick; would the consequences work out as quickly as they would in the case of a falling rate?—The consequences in the case of a falling rate will be quicker.

4604. In this case the adjustment will be small, and therefore the less harmful?—Yes; but I prefer the present rate.

4605. I am only asking these questions in order to see what the justification is for your view that the 18d. rate should be chosen in order to avoid disturbances. We were examining what the disturbances would be. Now we come to the next heading of your recommendations with the leading question, "what measures should be adopted to maintain the Rupee at the rate selected?" The procedure which you recommend is practically the pre-war procedure?—Yes; the pre-war procedure in preference to the present procedure of sterling purchases in India through the Imperial Bank.

4606. Will you amplify that answer by telling us why you prefer the older procedure of councils and reverse councils to the new procedure of the purchase of sterling in India?—The purchase of sterling in India means that the official rate of 1s. 6d. is available; that is the rate at which Government is buying sterling. What has happened now is that exporters are holding off and saying, "we can sell, whenever we want, to Government at the higher rate." This attitude spoils business.

4607. I do not think I quite follow that for the moment. What is the adverse effect upon business of the new procedure?—Merchants hold up their bills right until the due date. In the old days every Wednesday there was a sale of council bills, and merchants sold their bills at any time during the week, except on Wednesdays.

4608. Would it, in your opinion, be any remedy for the disadvantage if the purchase of sterling in India

were to be by tender instead of by private treaty?—That would be better; but I think council bills in London or sterling purchase in India by tender are both equally good.

4609. Assuming the adoption of the tender system, you would not see anything to choose between the two methods?—Not much. But I think sale of council bills in London would be the better of the two.

4610. What would be the still remaining advantage in the method of the sale of council bills?—In the case of council bills you will have to have council bills not only at the various centres in India but you must consider the many foreign countries dealing with India; London, being the most central market, would be most convenient.

4611. That is really a practical difficulty in the way of applying the tender system in India?—Yes. It will have to be at 5 centres, Rangoon, Karachi, Bombay, &c.

4612. In the days of the electric telegraph, is there any great difficulty in that?—Still there is.

4613. What is the nature of the difficulty?—The time element; we would not get the results quickly enough. What about the foreign countries? They would have to send an application the previous day. A lot of American jute contracts are made and they would apply for councils. It is obviously more convenient to apply for councils in London.

4614. So that, in general, you suggest no other substantial changes in the pre-war system, but your recommendation on this point is the re-establishment of that system and the fixation of the ratio as you have it now?—Yes.

4615. With reference to the size of the reserves to be kept, would you tell us what makes you adopt the figure of 50 millions?—Yes, Sir. I based it on the maximum adverse balances of trade during the last 15 years.

4616. Then you recommend that the control of the note issue should be transferred to the Imperial Bank. There is a word which I have a little difficulty in apprehending. You recommend that there should be a *gradual* transfer. What had you in your mind as a gradual transfer?—Because people up-country, when they see a change from the Treasury issuing notes, to the Imperial Bank issuing notes, they might have some apprehension. That is all I meant. This is why I say "gradual."

4617. Gradually as regards the steps to be taken?—Yes, as regards steps to be taken.

4618. Is it your view that the transfer should be a definite transfer of control so that the notes become the notes of the Imperial Bank?—No, Government of India. The bank act as they act in the public debt office as the agent of the Government.

4619. But the actual management and control of the reserves, the support of exchange and so on, including the work of Government remittance to which we refer elsewhere, should, in your opinion, be remitted to the management of the Imperial Bank?—Quite.

4620. But you would preserve in form the notes as notes of the Government of India?—Yes.

4621. Is that with a view to avoiding any disturbance in the habits of the people with regard to the note issue?—Yes, that is it.

4622. I think it would be of advantage if you could assist the Commission with any suggestions based upon your practical experience as to what further facilities are desirable as regards the encashment of notes?—(*Mr. Kikabhai Premchand.*) Of what nature?

4623. You say: "The Imperial Bank of India should be given wider powers and larger balances to facilitate the encashment of notes. The present system of cashing them at Currency Offices is cumbersome and troublesome." "Larger balances" is one point; what wider powers had you in mind?—I mean the issue of notes. If the system is transferred from the Currency Office to the Imperial Bank, then the whole question will be settled and they can give all facilities. The small notes——

4624. I will take that as a separate question. As regards the wider powers to which you have referred, they would be adequately conferred by the control of the Imperial Bank to which you have referred?—Yes.

4625. Then we come to the point of the one rupee note. In your opinion is it desirable or otherwise that the issue of the one rupee note, or of notes less in denomination than Rs. 5, should be continued or stopped?—Re-introduced. They have stopped it now.

4626. I understand you think that is a mistake?—(*Mr. Kikabhai Premchand.*) I think so.

4627. What is the advantage to be gained by it?—It teaches the general public to use currency notes, particularly the ryots and other people of that class.

4628. It is a measure tending towards popularising and increasing the note circulation?—Yes.

4629. Your opinion as to the desirability or otherwise of a gold currency, as expressed in your reply to question (6) A, is that "while the use of gold as currency is highly desirable, it is not practicable at the present time, in view of the widespread habit of hoarding. It can only be gradually introduced over a period of years." Could you amplify the answer on that very important topic. How would you expect the widespread habit of hoarding to react upon any attempt to introduce a gold currency?—(*Mr. Manecklal Premchand.*) At present, if gold coins are given in exchange for notes, people would simply bury them.

4630. Your view is that, the more gold is available, the more it would go into hoards?—Unless gradually people learn the habit of investment; then it will gradually decrease.

4631. Let me suggest there another point of view, which is perhaps the converse of that. Supposing it was said that, by making gold available freely in circulation, you would inspire so much confidence in the stability of values that people would no longer want to hoard, what would you say as to that suggestion?—People have always wanted gold in India for hundreds of years. They will not give up the habit so quickly whether gold currency is introduced at once or not. There is another danger. The moment you give gold against notes they will also bring rupees and ask for gold coins. All the rupees already hoarded would come out.

4632. You would say that the making available of gold for currency, and perhaps eventually, as you suggest, gold for rupees and notes would have no effect in educating the people, and in restoring such a spirit of confidence as to educate them out of the habit of hoarding?—Ultimately it will reduce hoarding when people know that gold is available against notes, but the first rush is going to be a very great one.

4633. You tell us that the gold hoarding habit is such an inveterate habit with the people of India that that must be a slow process?—Yes, I think the habit is very strong here.

4634. Now let me ask you what you expect would occur supposing one were to offer, as one measure towards the introduction of a gold currency, to give out gold coins freely against rupee coins?—I think rupees would pour in to the currency office in very great numbers.

4635. What effect will it have on those who hold rupees in hoards?—They will bring out their rupees and substitute gold coins in their hoards.

4636. Do you expect that effect to be widespread and continual, or do you expect it to be local only and to cease as soon as it was seen that gold was coming out? I am asking you questions which I realise are difficult because they involve your opinion on what the state of mind of the Indian public is. These, of course, are matters upon which the Commission needs illumination?—(*Mr. Kikabhai Premchand.*) If people know they are sure to get gold the habit of hoarding may gradually diminish. At first there will be a rush.

4637. Have you ever attempted to make an estimate of the amount of gold which might be required under such conditions in view of the total amount of rupees outstanding and so on?—(*Mr. Kikabhai Premchand.*) Required by the Government for coining?

4638. Let me put it in this simpler way. Have you ever interested yourselves in making any estimate as to the total number of rupees still outstanding?—(*Mr. Maneckklal Premchand.*) The rough estimate is about 300 crores.

4639. What is your estimate based on?—We take the Controller of Currency's report as to the rupees minted and issued during a period of years. The rupee being a token coin nobody melts it, so they must be in the country though we do not know where. The moment people know gold coin is available they will make their appearance. Whether all will come out is a question, but undoubtedly many of them will.

4640. Recognising, of course, that a certain large amount will still be required for circulation?—Yes.

4641. You say the policy of minting gold in India should be a free exchange of gold bars for sovereigns and *vice versa*, a reasonable charge being made by the Mint. I rather gather from the opinions that you express that you would not expect the result of the establishment of a Mint, with free coinage, subject to a reasonable charge, of gold bars to result in the passage of any large quantity of gold into circulation under present circumstances?—It will not bring any large quantity of gold into circulation but many gold bars will be converted into gold coins. People will convert the bars into coins and keep them.

4642. And then, as you told us, the gold coin will go into hoards?—But possibly after an effective gold standard has been established for some years they may again circulate.

4643. Have you given any consideration to what you would look forward to as the ultimate ideal of your recommendations? You express the view that the use of a gold currency is highly desirable. Let me put it in this way; you recommend the establishment of the pre-war system?—Yes.

4644. I rather gather that you do not recommend the taking of any further steps with a view to the encouragement of the use of gold as a currency under present conditions?—Under present conditions we do not.

4645. You would wait for that until the habits of the people as regards gold hoarding have been improved?—Yes.

4646. Would you look upon it as a relevant circumstance in that connection to consider the habits of the people as regards the increased popularity of notes as a form of currency?—Yes, I would.

4647. In your opinion is the use of notes increasing among the uninstructed people; are they getting more confidence or not?—They are getting more confidence in the notes now than in the pre-war days or say 20 years back.

4648. What would you say to the suggestion that, if you waited long enough—(you recommend waiting)—you would arrive at a time when the people of India were so used to the use of notes that notes would have become the circulation of India. Under those conditions would there be any advantage in looking forward to the substitution of notes by gold currency or not?—The more notes people use and the less gold coin, the better. Until such time as people acquire the good habit of keeping notes and trusting them thoroughly, there may be some difficulty; but eventually it should be practicable.

4649. I do not quite follow that. Would you prefer to have gold in circulation rather than notes?—I would have notes rather than gold.

4650. If you have notes then you would not trouble about gold for circulation?—No.

4651. This opinion of yours which I have explored is really summarised in your phrase that it is your conviction that "a gold standard should be gradually introduced concurrently with determined efforts on the part of the Government to discourage the hoarding habit." That is what you have amplified now with the answers that you have just given me. I am not sure, but are you perhaps missing some suggestion that you might care to make in connection with the sentence: "We have in mind a practical scheme"?—(*Mr. Kikabhai Premchand.*) I should issue post office certificates repayable say after 3 or 5 years at a lower rate of interest than at present but repayable in gold, with the restriction that they should be paid in gold coin only when cashed on due date. If demanded earlier then they must be paid in notes or silver. Such a scheme will educate people to the possibilities of investment, satisfy their craving for gold, and by creating a good demand for post office certificates, place at the disposal of Government a large supply of funds now hoarded.

4652. Is there nothing of that sort now?—No, not in gold. When you make the announcement advertised widely that certificates will be repayable in gold at maturity it will be a very great attraction for small investors, and gradually the limit should be increased from Rs. 10,000 to perhaps Rs. 20,000 or Rs. 25,000.

4653. What is that limit?—The limit to be issued to one individual.

4654. In order to encourage the investment habit and to teach people that there is something better to do with gold than to hoard it, you would issue, through the Post Office, a gold certificate repayable on a due date in gold?—That is so.

4655. What will be the duration?—Three or 5 years.

4656. As much as that?—I am just trying to give a tentative idea of what we mean. You may have any other period suitable to Government.

4657. Do you think there would be much demand for a 3 years gold certificate?—Possibly.

4658. Would not people have to get some experience first that they are going to get their gold back?—The term could be reduced to two years.

4659. These certificates would not go well until they had begun to fall due and people had begun to find out that they actually could get repayment in gold?—Until then the demand will perhaps not be very big, but when they are convinced they will come in a rush for it.

4660. Just to encourage the market you would not begin with shorter certificates?—No, not shorter.

4661. You think that would be impracticable from the point of view of Government?—No; I would put it at three years or two years at the minimum.

4662. Towards the end of your memorandum [question (8) (B)] you say: "The present provisions of the Paper Currency Amendment Act, under which currency notes are issued against hundis, is quite satisfactory and we do not consider a revision of these conditions necessary." Do you consider the nature of the securities against which emergency currency can be issued is incapable of improvement by extending the list or making liberal provisions as to the sort of securities which can be discounted? That is one point. The other is as to increasing the amount to which emergency currency can be allowed against securities?—I think the present amount is quite sufficient, and present provisions adequate.

4663. In your experience, the present provisions of the Paper Currency Amendment Act provide a scheme which gives reasonable and adequate elasticity to deal with the seasonal demand for currency?—In the present circumstances, yes.

4664. (*Sir Purshotamdas Thakurdas.*) You said just now that for introduction of gold standard you would wait until the people of India learnt not to hoard. How long do you think you would have to wait for that?—It may be many years before they have learnt not to hoard.

4665. The best part of half a century or a century perhaps?—I do not think as much as that.

4666. In how many cases do you think they will begin to forget this habit of what is called "hoarding"?—It is very difficult to say.

4667. But you do think that a gold coin should be put on the market?—I think it should.

4668. Mr. Maneklal Premchand gave us a practical scheme just now as to how a gold coin could be put

on the market. How do you think then that Government could discourage the habit of hoarding? You say in (6) (B): "It is our conviction that a gold standard should be gradually introduced concurrently with determined efforts on the part of Government to discourage the hoarding habit." What sorts of efforts on the part of Government to discourage the hoarding habit have you in mind?—One is the investing habit through the Post Office Certificates; the other is that coins should be issued without any obligation on the part of Government; that is coins or notes or rupees should be issued as in pre-war days. Government would undertake to give sovereigns only when they are available and they would not give them when they were not. In this way people would get more and more confidence, that although the Government were not bound to give gold coins always against their notes, they could still get coins occasionally and they would thus be discouraged from hoarding.

4669. You recommend that?—Yes.

4670. Have you any idea how people will utilise this option which government gives them? Will there be more rush for sovereigns than before the war?—They always take it in the season, quite a big amount.

4671. Was there any rush on the part of people to hasten with their rupees and get them changed into sovereigns?—Such an occasion did not arise, because sovereigns and rupees were fully available.

4672. So would rupees also be available when gold standard is introduced: it is not proposed to discontinue the rupee: why do you then think that people will rush with their rupees to get them changed into sovereigns hereafter?—Because for all these years since 1914 to date the people have not had any coins officially given to them; they have imported it as a commodity and therefore the first temptation would be to exchange it; ultimately it will subside; it would be a rush only at first.

4673. Do you not think they would take the bullion to the mint and ask it to be minted?—Yes.

4674. Which is more likely, that they would take bullion to the mint or that they would take their rupees and ask to have them changed?—I think the rupees in greater number would come to the mint to be changed into gold, and next to that would be the change of bars into gold coin. If this is gradually done, then fewer rupees would come.

4675. If Government instead of legally undertaking to change the rupee into gold said they would do so when it suited them?—The rush would be more gradual.

4676. Regarding the contracts for produce which have been entered into, affecting the question of ratio of exchange, you said in reply to the Chairman that there would be a great upset in the financial conditions, because a number of contracts have been entered into in connection with the sale of cotton and seeds for export?—Almost all produce in India.

4677. You have in your mind that this is the middle of the season, or rather the beginning of the season, I think, and people have got commitments for sale, and their contracts are not complete because the produce has not been exported; is that what you have in mind?—No; not even foreign merchants leave their contracts open as a rule; although they do not necessarily close the exchange and produce contracts simultaneously.

4678. When an exporter sells his produce and leaves his exchange contract open, is he not speculating?—Yes. He cannot get away from such speculation entirely, but when government is committed to a definite rate of 1*s.* $6\frac{3}{16}$*d.* he more or less relies on its stability.

4679. He could avoid that risk, could he not?—In some cases he could; but sometimes he could not

4680. Is it absolutely necessary for him to leave his exchange contract open?—Not absolutely necessary; but sometimes he is compelled to do it.

4681. Why?—Because he may sell to Europe for a delivery in October; the goods may not come; he may be forced to cancel his contract on the other side, which would leave him with an exchange contract outstanding.

4682. Then, will you oblige me by letting me know if you can sell and buy exchange for the next twelve months or not?—We can.

4683. Then, how does the question arise?—Because contracts are generally for a particular month only; you cannot make a contract delivery December to next June, it is not allowed.

4684. That is as far as the bank is concerned?—Yes.

4685. Do you think the buyer on the continent buys with six months option to the seller here?—No.

4686. He also stipulates shipment?—Yes.

4687. Therefore for all practical purposes the shipper knows what time about he will have to present his documents?—He knows approximately, but he may get extensions there.

4688. He could get extensions here also with a slight penalty?—Yes.

4689. Therefore he need not take the risk of exchange?—Not necessarily.

4690. Those exporters who take this risk of exchange choose to take it either for profit or for something else. Would you therefore say that their interests require serious consideration?—We do not say the interests of any man who speculates requires special consideration.

4691. Then will you tell me what financial conditions you had in mind which you are afraid of disturbing by altering the ratio from 1*s.* 4*d.* to 1*s.* 6*d.*?—We will have a big rise in the price level here, and the budget would be disturbed.

4692. I propose a little later to ask *re* the rise in the price of commodities and economic disturbance: I am at the moment thinking of the disturbances in the financial conditions?—Importers who have made purchases abroad but have not fixed their exchange would be very much disturbed. There may be again a repudiation of contracts as happened at the time of the 2*s.* fixing; that danger may recur.

4693. Any other that you have in mind?—National finance would be disturbed, the Government of India's budget.

4694. These are the main ones?—Yes, all that I remember now.

4695. Now, regarding economic disturbance, you have in mind disturbances to the price level, or have you any other thing else in mind?—Yes; rise in general prices which would tell very bady on the people who receive fixed incomes.

4696. This rise or drop in general prices which always follows a change in the ratio, is it felt by the people?—It is felt.

4697. When does it cease to be felt by the people, at what stage? Does it continue to be felt by the people or is it felt only for a stated period of time?—It would be felt for a long time.

4698. For how many years would it be felt?—If wages rise in proportion, not for a long time; otherwise for a very long time.

4699. Can you tell me approximately the number of years, one, two or three, or would it be six months or so?—I could not say exactly.

4700. Do you think that the disturbance caused by the change from 1s. 4*d.* to 1s. 6*d.* is still in existence, or whether it has ceased to operate in the economic conditions and price levels?—It has more or less settled down; prices have adjusted themselves to the present level.

4701. And when did the change from 1*s.* 4*d.* to 1s. 6*d.* take place?—The change from 1s. 4d. to 1s. 6*d.* took place for the last several months.

4702. So it has taken only a few months to settle down?—Yes; a rising rupee after all does not do so much harm as a falling rupee.

4703. A falling rupee does harm?—Yes.

4704. More harm to the consumer?—Yes; to the country as a whole; particularly to the consumers.

4705. A falling rupee does harm to the consumer, and does harm for a longer period than a rising rupee does. What about the harm to the

agriculturist?—The agriculturist is not very much harmed because he gets far more price for his produce than he got in pre-war days; he has been getting much better prices for his produce than he was getting when the rate was 1*s*. 4*d*.

4706. If he was not getting that, the rise would hit him?—If he was actually losing by it, Government would consider it.

4707. It does not matter about the Government; kindly tell us what you think; kindly oblige us with your view. If there was no rise in the world prices, you would be opposed to a rise in exchange from 1*s*. 4*d*. to 1*s*. 6*d*. because the cultivator would lose by it?—If the cultivator actually lost I would be against it.

4708. In this case there has been an advance in world prices?—Yes; and they are getting more rupees for their produce.

4709. Therefore in your opinion the agriculturist is one of the most prosperous men going in India to-day?—I think so.

4710. What about industries as affected by the rise in the ratio?? Do you think the industries also continue to flourish as well as the agriculturist?—Those industries that have to compete with foreign goods do not; the rest are not affected.

4711. That is mainly the cotton industry?—The cotton industry in particular is very well established in India, and they are not effected by the exchange.

4712. Is that industry not affected by the exchange?—I do not think so.

4713. Whether the exchange was at 1*s*. 8*d*. or 1*s*. 2*d*., the cotton industry would not be affected?—(*Mr. M. Premchand.*) No, Sir, I think the price of raw cotton would vary in terms of exchange.

4714. And therefore the industry would get the *quid pro quo*?—They would get the benefit of the price of cotton.

4715. Therefore in your opinion a rise or fall in exchange does not affect them?—A fall in exchange might affect them.

4716. How?—Because they have not only to use cotton, they have to use a lot of other material than cotton for the manufacture of cloth and yarn. There is the sizing, chemical stores, and so many other things. Only 60 per cent. is cotton, the rest is imported stuff, machinery, etc., on which the costs would be relatively higher.

4717. Therefore, a fall in exchange would prejudicially affect the cotton industry?—A sudden fall, yes.

4718. A gradual fall would not matter?—Well, things would then have time to adjust themselves.

4719. Anyway a fall in exchange is not desirable?—Not so far as the cotton mills are concerned.

4720. And a rise in exchange?—A further rise in exchange under present conditions would also affect them.

4721. But the rise in exchange to 1*s*. 6*d*. has not affected them?—In my opinion it would not affect them.

4722. I have finished with Mr. Manecklal. I would like to put one or two questions to Mr. Kikabhai. Mr. Kikabhai, you are Agent for several leading Indian States in Bombay, and you happen to be their financial agent here, lending for them substantial amounts on various industrial and other enterprises in Bombay?—Yes.

4723. Through you a very large sum of one crore of rupees has been lent to one public Company in Bombay?—Yes.

4724. (*Sir Purshotamdas Thakurdas.*) Would you tell us—you need not give the names if you don't want to.

4725. (*Chairman.*) We must be careful not to ask Mr. Premchand any question that will embarrass him.

4726. (*Sir Purshotamdas Thakurdas.*) I am only asking him to lay before the Commission things which are generally known in Bombay—he need not give the names if he does not want to.

4727. (*Chairman.*) We must exercise the utmost care, of course, not to embarrass the witness.

4728. (*Sir Purshotamdas Thakurdas.*) Can you tell us what the inclinations of Indian States are regarding hoarding—or what is called the hoarding of precious metals?

4729. (*Chairman.*) Sir Purshotamdas, just before the witness replies, he might not realise that, although our proceedings to-day are confidential, ultimately all the evidence will be published?—(*Mr. Kikabhai Premchand.*) Of course, I quite realise that, Sir. What you mean is whether they keep a good deal of hoarded gold or not?

4730. (*Sir Purshotamdas Thakurdas.*) Do they keep a lot of precious metal in their treasuries?—To a certain extent.

4731. What is their motive, what is the special reason which leads them to do this?—They want to keep that gold because they know that otherwise when they are in immediate need of it they may not get it. They want to keep a certain amount of gold always in the country.

4732. Why do you say they may not get it? Bombay and Calcutta are fairly near?—They may desire to have it on hand when they need it urgently for their own purposes. They might not satisfactorily realise on their investments if obliged to dispose of them.

4733. In order to enable them to carry out their responsibility to their people? Have there been any years when they have sold out their hoards?—No, there have not. That is their underlying idea. To use it in an emergency.

4734. Do you think they are likely ever to part with their hoards which have been laid in with this underlying idea?—Yes, when an effective gold standard is introduced or when they know that they will get gold against currency, they may realise their hoards in exchange for sovereigns.

4735. Is that likely also to go further and they may keep nothing thinking that they can always get it freely?—Well, it depends upon their views at the time. I think they would always keep a certain amount.

4736. They would keep a certain amount in any case?—But they would not keep as much perhaps as they have been keeping hitherto.

4737. You mean that their hoards would be reduced?—Yes.

4738. Have you found any great disposition on their part to invest in industrial enterprises lately? Have they been getting increasingly disposed to invest in industrial enterprises?—I think so.

4739. Steadily increasing tendency. Is there anything special that you think can be done regarding the Currency Policy of the Government of India to induce them still more in this direction?—You mean currency policy about exchange?

4740. No?—I think if they are assured that they will get gold against their currency they will probably reduce their hoards.

4741. Do you think these Indian States have more silver rupees hoarded or more gold hoarded? I mean within the last six months or so?—More gold. Silver also but less of it.

4742. The quantity of silver is diminishing and the quantity of gold is increasing?—Speaking generally. I want to put it this way. I am giving you my views about all the native states, not particularly about my clients. This evidence may be published and they might think I am giving views about their private affairs.

4743. (*Chairman.*) You understand very well that it will be published?—Yes. I just wanted to note down that I am giving you my opinion about the native states generally. That is my belief about all the native states in India. I am not referring particularly to the people with whom I am concerned.

4744. (*Sir Purshotamdas Thakurdas.*) Which of you, Mr. Kikabhai, is connected with the bullion exchange here? Wasn't one of you chairman?—No, my brother is a member of the committee of the bullion exchange here, not I.

4745. Would you, Mr. Manecklal, mind telling me whether, when you had a gold coin in India, I mean before the war, trade in gold bullion was as brisk as it is to-day—dealings in gold bullion?—Dealings in gold bullion were comparatively smaller than they are to-day for the reason that the price of gold was more or less fixed and there was no speculation in gold to the extent that we have seen recently. There was more or less stable gold price throughout the year at Rs. 24 a tola and huge imports of gold came in the shape of small National Bank bars, or Chartered Bank bars or other bank bars, 10 ounce bars. Apart from that there was not such a big trade.

4746. That is more due to the fluctuations of the gold rate?—That was one of the reasons. But another important reason was that sovereigns were very convenient. People took them as coin. They thought this way: This is a coin as well as gold, and when we want it we can realise on it irrespective of the bullion market.

4747. Therefore, when gold currency is available, trade in gold bullion is on a smaller scale than otherwise?—Now last year private imports on account of gold went up to something like rupees 60 crores.

4748. You imply therefore that, if gold coin was available the imports on account of private individuals last year would not have been as big as this?—They would certainly have been less if we had a fixed rate for gold and coin.

4749. You mean fixed by statute?—Yes.

4750. (*Sir Norcot Warren.*) These hoards that you talk about in the Indian states, don't they keep a large part of their surplus in Government paper?—(*Mr. Kikabhai Premchand.*) They do.

4751. On which they get interest?—Yes.

4752. And when they are in a tight corner, they can go to the banks and get loans?—Yes.

4753. Then why should they keep hoards of money?—They keep gold so that in case of a crisis they may not have to sell their Government paper.

4754. I do not mean sell—I mean a loan?—Well, even loan. They don't want to pledge it to the bank.

4755. Why not?—They do to a certain extent but some of them don't. That is why they keep gold as far as they can, to be used when an emergency arises.

4756. (*Sir Alexander Murray.*) You were referring to the large speculation that was going on in gold just now within the last year or so. Has that been due in your opinion to any extent to the possibility of exchange going back to 1s. 4d.? People want to gather stocks of gold at the 13½ ratio in order to realise 15 rupees for them later on?—(*Mr. Manecklal Premchand.*) Yes. That has been one cause, but not the only cause. They considered the price was very cheap as compared with the pre-war price and they said, if by chance exchange went to 1s. 4d. we would make a profit.

4757. (*Sir Maneckji Dadabhoy.*) What is the practice in your market here? Generally for what periods are these contracts entered into?—(*Mr. Manecklal Premchand.*) Contracts of what, Sir? Exchange?

4758. Yes?—Contracts of exchange are entered from the monsoon months right on to the next year's monsoon. Practically from July to June of next year.

4759. Just about 12 months?—9 months.

4760. Are there any contracts under the old ratio scale subsisting?—I don't think there are any contracts subsisting now.

4761. You have stated that any abrupt change would certainly cause serious consequences, while we doubt if even a gradual but marked alteration of the present rate could be accomplished without disrupting the financial machinery of the country. Now could this disturbance of the financial machinery of the country be averted by Government issuing timely notice to say that they propose to bring this ratio of 1s. 4d. or 1s. 5d. or any lower ratio into operation at any particular date, 6 months or 12 months hence?—The financiers and merchants and banks have such enormous coins that they would anticipate Government's dates and immediately take advantage of the market. Once it is known that 1s. 4d. is coming, the rate will go there, whether you announce it or not.

4762. Even if you gave time?—Even if you gave twelve months' notice, it would not do that.

4763. Now two great industries of this country, as I understand, are, apart from agriculture which is not referred to at present, the textile and the coal industry. My friend, Sir Purshotamdas, has asked you questions about the textile industry. May I know how this higher rate of exchange would affect the coal industry? Have you thought over the matter?—Yes, Sir, I have. The export and import of coal is very small. British India statistics prove that. I mean that while the total trade of India is about 600 crores, the total foreign trade in coal amounts to rupees a crore or two crores.

4764. And what about the internal price of coal?—With a higher rate of exchange foreign coal would compete, but you have a duty on imported coal, I mean against dumping and so on.

4765. At present we have only 8 annas a ton?—I think the Tariff Board is considering the matter.

4766. I want to know what effect the higher rate of exchange will have on internal prices?—It will put the coal industry in competition with foreign coal.

4767. What rate will put it?—A higher exchange would.

4768. (*Sir Henry Strakosch.*) I wanted to ask you about the bullion market in India. Very large quantities of bar gold have been bought, especially during the last year. I would like to know a little how the gold introduced into India is retailed and dealt with, all over the country. Could you give us a short description?—Gold bars are imported by the bullion dealers of Bombay through the Exchange Banks here. First they buy the gold through London brokers. The bars are imported here by the Exchange Banks, mostly British or some foreign Banks. When these bars arrive, banks give ten days' time to pay for those bars. Within the ten days they most probably dispose of the gold unless the demand is slight. Some of these bars are cut into pieces in Bombay and sold retail. Some of the bars are railed upcountry in boxes and they go there for distribution in the upcountry markets, while the small bars of the National Bank or the Chartered Bank are not cut into any pieces; they are sold as whole bars.

4769. So that it is hardly possible for a speculative position to exist in gold because the buyer has got to pay 10 days after the gold arrives here?—He buys the gold for 10 days' delivery and he sells forward in the market. On the 10th day he may go to his banker and ask for a loan.

4770. So are there big loans running on gold?—Enormous. Last year some crores of rupees were locked up in gold. The Imperial Bank was flooded with gold.

4771. Could you give an estimate of the position to-day? Is there much gold pledged to the banks against loans?—Not so much, because the prices have been more or less stable and the local price has been under the importing price, under parity as we call it.

4772. Which rather indicates that they had overbought?—Last year they anticipated their requirements for at least a year or so.

4773. Can you tell me to what extent you think these purchases have been made on really speculative account in anticipation of the fixation of the rupee at a lower point than it stands at present? Can you give us an estimate of that?—You see they were talking in the Press that 1s. 4d. would come, and the Bazaar had rumours that 1s. 4d. was coming till the Budget last year when the Government announced 1s. 6d. as their Budget rate. People were always thinking that there would be some miracle coming and speculators were always attempting some sort of plan to push up the rate. Bombay merchants are always ready with the gold in hand. They are

the biggest holders of stock and the biggest dealers. So they always for their own interest spread some sort of rumours here to raise the price. I could not say that it was exactly due to that alone: the price was cheap and there was an idea that 1s. 6d. would not come. There is no risk of a drop in the rate of gold because exchange is pegged at 1s. $6\frac{3}{16}$d. and therefore buying gold is a good speculation.

4774. All then that they had to lose was the interest to the Bank, and there was just the chance of making $12\frac{1}{2}$ per cent. if the rate went down to 1s. 4d.?—Yes.

4775. You could not say more except what you have indicated that gold now internally is lower than the import point?—At present it is.

4776. That rather indicates that there was an over-bought bull position of gold which for one reason or the other had to be liquidated?—Yes.

4777. And that the bull position still continues?—Yes.

4778. Then I have one question to ask on a totally different subject. In this country the paper note and the rupee, or as it is very often called the note printed on silver, circulate side by side. In the past the note has been convertible into rupee coin. Both are tokens?—Yes.

4779. The only difference between the one and the other is that the one is printed on very cheap material and the other is printed on an expensive material. But their internal and external value depends entirely upon the stabilization of the gold value of the rupee through the exchange?—Yes.

4780. Therefore in fact there is no difference between the two classes of notes?—No.

4781. What I wanted to ask you is this. In the circumstances, is there any particular reason why the note token printed on paper should be exchangeable into the other token printed on silver? Would you consider it an essential condition that the rupee note printed on paper should be exchangeable into the rupee note printed on silver?—It should be made exchangeable.

4782. But why?—That is only a mere bit of paper, as many ignorant people call it, and as to the other they say it at least has some apparent value, some bullion value. Of course to anybody recognizing the stability of the Government and the paper currency and all that, it is absolutely more convenient than the silver rupee.

4783. You say that, because of popular prejudice or popular ignorance, you would consider it essential to make the paper note convertible into a rupee note?—Yes.

4784. (*Chairman.*) Is there any particular point on which you wish to supplement your memorandum?—No.

4785. (*Chairman.*) I should like, on behalf of my colleagues, to say that we are very much obliged to you for your very full assistance to-day.

(*The witnesses withdrew.*)

FOURTEENTH DAY.

Friday, December 11th, 1925.

PRESENT:

THE RIGHT HON. EDWARD HILTON YOUNG, P.C., D.S.O., D.S.C., M.P. (*Chairman*).

Sir RAJENDRANATH MOOKERJEE, K.C.I.E., K.C.V.O.
Sir NORCOT HASTINGS YEELES WARREN, K.C.I.E.
Sir REGINALD MANT, K.C.I.E., C.S.I.
Sir MANECKJI BYRAMJI DADABHOY, K.C.I.E.
Sir HENRY STRAKOSCH, K.B.E.
Sir ALEXANDER ROBERTSON MURRAY, C.B.E.
Sir PURSHOTAMDAS THAKURDAS, C.I.E., M.B.E., M.L.A.
Professor JAHANGIR COOVERJEE COYAJEE.
Mr. WILLIAM EDWARD PRESTON.

Mr. G. H. BAXTER, (*Joint Secretary*).

Mr. PHIROZESHAH MERWANJEE DALAL, called and examined.

4786. (*Chairman.*) Mr. Phirozeshah Dalal, you are kind enough to assist tho Commission with your evidence. Are you engaged in business?—I am a broker, Sir, in exchange, finance and bullion.

4787. In the city of Bombay?—Yes.

4788. You have provided us with a very full memorandum* to assist us in our preliminary apprehension of your opinions. I would, if I may, ask you a few elucidatory questions on your memorandum which are all directed to testing the opinions which you express and do not imply the adoption of any particular point of view on the part of the questioner. They are only put in order to understand your opinions in their full strength. Let me direct your attention to the first paragraph. In the first paragraph of your memorandum headed "questions 1 and 2," referring to the effect of the recent rise in exchange, you say that "agricultural industries have not felt the strain to the same extent as manufacturing industries owing to the high world prices for certain raw products"; but you further express the opinion that "they also will feel the effects in the years to come." May I ask you what consequences you forsee in that expression?—The opinion has been expressed that as the gold standard is established in various countries and that if it is extended to other countries it will have the effect of lowering gold prices. Therefore agricultural products of India will not realise the same prices as they have been doing in the past few years.

4789. You are referring to a loss of the benefit to which you refer from the rise in general gold prices rather than to any consequence still to work itself out in adjustments of the rise in exchange. If I may try and make my question a little clearer, this is your view, as I understand it, that there is a bad effect upon the agriculturist owing to a rise in exchange, and a good effect owing to the shift in general world prices; and further consequences which you foresee are a loss of the good effect owing to the shift in general world prices and not to any further working out of the direct consequences of

* Appendix 24.

the rise in exchange?—Yes; also prices of certain commodities have been very high during the last few years, like cotton, owing to the shortage of crop in America. But we cannot expect such prices to last. We exported a 100 crores worth of cotton last year; we are not going to do that always. Already the price of cotton is down, nearly Rs 100 per candy from last year's price.

4790. I think that is really another aspect of the general conclusions to which you have already referred. What importance do you attach, from the point of view of the agriculturist, in connection with the fall in the price of cotton, to the counteracting benefit which he would obtain from a cheaper price for whatever cotton cloth he has to buy?—The public generally and the agriculturist will benefit from the cheaper cloth; but I do not think India will realise the prices she has been realising in the last few years; that is my point.

4791. For the cotton which she grows?—Yes.

4792. Now we pass on to paragraph 2 of your memorandum where you refer to the disastrous consequences of a move of exchange upon Indian industries. I do not quite follow the conclusion in your next paragraph, in which you draw a conclusion against the stabilisation of exchange at 18d. One must distinguish, must one not, between the consequences of a shift in exchange and that in respect of the maintenance of exchange at a given level. Can you make it clear to me why the disastrous consequences which result from the transition upwards are an argument against maintaining the higher rate once the transition period is over; or perhaps that is not your contention?—You mean the third paragraph, Sir?

4793. Yes. I follow that that would be an argument against a further rise in exchange, but I do not quite follow why they are an argument against staying where we are?—The effect of staying where we are will be felt for many years to come. We must produce at a greatly reduced cost a great deal before we can meet foreign competition at the present level of exchange. We have tried to reduce wages in Bombay lately and you know, Sir, that we cannot do it. The workmen resent; the Government themselves do not favour any reduction of wages. However, to meet this competition, this 12½ per cent. bonus that has been given to foreign manufacturers should go. Are we to suffer simply because the rate has been pushed to 1s. 6d. during the last two years? What is the justification? This adjustment will not take place for years. There will be a great struggle before that adjustment takes place.

4794. On the point of wages, you say that "exchange has been arbitrarily raised 12½ per cent. in the last few years, with no corresponding reduction in wages because any attempt to lower wages meets with the most strenuous opposition," and so on. Now supposing it was said, true for other reasons labour has been able to resist a reduction, because there was a general tendency to a rise in wages in India owing perhaps to a better education, better ability to combine, and so on, nevertheless, if it had not been for the rise in exchange, wages would have been higher than they are, and that the effect of the rise has made itself felt not indeed in a reduction of wages, but in a prevention of a rise. What is your view on that?—I cannot agree that wages would have risen during the last two years during which exchange has been pushed from 1s. 4d. gold point to 1s. 6d. gold point. No such thing would have taken place in Bombay. I do not think wages would have risen even at the Tata's Works at Jamshedpur. Even then we were trying to get the wages reduced. We stopped the bonus of the mill-hands in that period. There was no question of rise in wages. It was not demanded. There was no question about it.

4795. The argument that would, I imagine, be put by one who upheld the contention would be that, but for the rise of exchange, whatever effect that has had upon prices there would have been a demand for higher wages, and you would have seen wages rise to higher levels than they are at present?—There might have been a demand if world prices had risen during the last 2 years; if prices in India had gone up correspondingly there might have been a claim for increasing wages, but there is stabilisation of prices in the world for the last 3 years, practical stabilisation all over Europe and America. So how could that claim have been made for an increase in wages; it would never have been granted and it was never made.

4796. I understand it is your opinion that the rise in exchange has had no effect upon money rates of wages, even a masked effect which is concealed possibly by other factors at work?—I do not quite follow, Sir.

4797. I was really only summarising the replies which you have given to my questions. The contention is that there has been an effect, but it has been masked by other kinds of tendencies. In your opinion there has been no such underlying effect as the result of exchange?—No.

4798. Although we must admit in the hypothetical region the possibility of such an effect?—Yes, Sir, hypothetically you can say that.

4799. Turning over the page, you express the opinion that competition from foreign countries, especially those with depreciated currencies like Japan, France, Belgium, etc., may be met by lowering the exchange to 1s. 4d. Is the benefit that would thereby be gained in your opinion a permanent benefit, or a benefit in competition which would be temporary only, passing with the working out of the readjustments after the change in the rate?—No; it will work immediately and it will work for all time. We cannot stand competition from Japan whose exchange has depreciated nearly 25 to 30 per cent. On the top of that you give them a bounty of 12½ per cent. It makes things impossible, particularly in the cotton industry.

4800. Let me put to you the supposition that the Japanese currency is once more stabilised and has ceased to depreciate, and that the Indian currency also is stabilised and has ceased to depreciate at 1s. 4d., and that this state of affairs has existed for some little period of years. Is the fact that the Indian ratio has been stabilised at 1s. 4d. rather than at 1s. 6d., a fact which will tend to the permanent facilitation of competition between India and these competing countries?—It is a question of adjustment. Only after many years can that adjustment take place. As I have already said to you, for how many years are we to suffer till that adjustment takes place. It will take years, say 10 years.

4801. That is rather another question. I am trying to see how your recommendations work. I rather gather from your last answer that you would look forward to a period at which the benefit of the reduction to 1s. 4d. would have exhausted itself?—After a long period, Sir.

4802. In order to test the length of the period, perhaps one should examine and see what the nature of the adjustment is, should not one?—Yes, Sir.

4803. What happens when we reduce the rate to 1s. 4d. is that the exporter's profits increase because he gets more rupees for his foreign currency, so that he has an immediate increase in his profits?—Yes.

4804. At the same time, as we understand, the importer has to suffer a diminution in his profits because he has to pay more rupees for what he buys abroad?—Yes.

4805. If you take a trade like the cotton trade, to what extent do you think the cost of production in the cotton mills of Bombay depends upon goods actually imported from abroad in the form of subsidiary raw materials, machinery and so on. Is that an important constituent of their cost of production or is it quite negligible?—You can ask that question of Sir Victor Sassoon, who comes here to represent

the Millowners' Association. I am not very closely conversant with these things.

4806. You would not care to give an arithmetical estimate? Nevertheless, we have to recognise that this is a matter to be considered when we are really appreciating the benefits of a 1s. 4d. rate?—Yes, Sir, but I cannot answer those questions so well as he will.

4807. As regards the period of adjustment, we must contemplate that the reaction on prices of imports will be very swift after the reduction of exchange. Obviously that takes place at once, does it not?—You mean the rise in the price of imports? Yes, it must come.

4808. The detriment to the importer in respect of imported goods must go pace by pace with the benefit to the exporter of goods?—Yes, Sir.

4809. So that there is something to be set against the prospective profits there. Now let us consider the other great constituent in the cost of production, that is, wages. By what processes, as regards the currency, could the reduction to 1s. 4d. be achieved in your opinion?—Well, by a reversion of the processes which have been set up in the last 2 years. The Government should start buying sterling at a lower rate of exchange, or should notify that they will receive gold at a rate corresponding to a lower rate of exchange.

4810. Generally I suppose the processes that have taken place by which the rate has been increased could, in your opinion, be summarised by describing them as various forms of restriction of the currency? —Yes.

4811. So that a reversal of that process could be described as various forms of increasing currency?—Yes, in proportion to the country's trade as the country wants it.

4812. Do you accept, in such a practical matter as this, the general theory, which is usually called the quantity theory of money, that when you increase the amount of your currency in some such way as this the inevitable result is a general rise in internal prices?—All other things being equal that theory must prevail, Sir.

4813. I do not know if it is the same in India as it is elsewhere, but elsewhere one would expect a general rise in internal prices, in its effect upon the cost of living of the industrial classes, to result in demands for increased wages?—I do not think on a reversion to 1s. 4d. any such demand is going to be made, as I have already said, Sir. The wage-earning classes do not expect any further rise in their wages; they fear a reduction.

4814. How should we stand if we recognise that the result is a rise in the cost of living? If the wage-earning classes do not get any increase in their wages, then the increased profit of the cotton manufacturers would really be at the expense of the wage-earners, would it not?—But will there be increased profits? Just now they are making losses, losses on stock. Are they to make losses for the benefit of the country and for the benefit of the wage-earners? Are they not entitled to have a fair profit; for the last 3 years they have been making losses. If you go back to 1s. 4d. it will put them on just a competitive basis with other countries, just enough to meet their financial charges and to pay perhaps a dividend to their shareholders.

4815. I quite agree with your point that one ought not to express it as profits; it is really an improvement in the position of the exporters. My question ought more accurately to be put in this form. If there is anything in the supposition that we have been trying to follow out, does it not seem as if the improvement in the position of the exporters which you recommend in order to enable them to compete more successfully with other countries might be at the expense of the wage-earners of the country?—But it is just now the reverse; it is the wage-earners who are benefitting by the position; the position will be then equalised. The wage-earner is now getting his wage at the expense of the whole country.

4816. Would you say in that connection that the wage-earner could afford to make that contribution, as it were, towards the success of industry?—Yes, Sir.

4817. Now further on in this paragraph you say: "For as gold prices fall the price which India will realise for her produce will be less and the trade balance in her favour will get less. As prices fall all over the world imports into India will increase and competition of foreign imports will grow and India can only face this if her exchange is also lowered. It will be therefore to India's advantage to revert to the 1s. 4d. ratio." I think I can put the difficulty which I feel about that contention in the form of this question. If the anticipation of a general gradual fall in gold prices of commodities is realised (the emphasis there being on the words "general" and "gradual," which I understand is what you are anticipating), why should this result in the trade balance of India in particular becoming less?—She will get less for her produce. If there is a general fall in the prices of the various commodities she exports, she will realise less. Even this very year the price of cotton realised in rupees will be much less owing to the fall in the price of cotton that has taken place. It may amount to 12 or 13 crores of rupees; but that is owing to agricultural conditions. If you extend that to all commodities as the result of a general fall in prices, the sum realised must be less; therefore the balance of trade must get less.

4818. She will get less for what she sells?—Yes.

4819. But will she not also pay less for what she buys?—She will pay more at 1s. 4d. and not less.

4820. Let me put the difficulty in another way. Does not your argument here assume that they are changing everywhere else except in India?—Yes, I assume the change all over the world, a general fall in gold prices must lead to a reduction of the balance of trade. The amount realised for exports and the amount paid for imports will leave a lesser balance of trade measured in rupees; therefore you cannot have such a big balance of trade, and therefore you cannot maintain the 1s. 4d. ratio. That is my point.

4821. In spite of that we are assuming that the change of prices in India proceeds *pari passu* with the change of prices elsewhere?—Well, it must come *pari passu* once the exchange gets settled at 1s. 4d. world prices must tell on India prices. We won't have a different range of prices in India from world prices. That would be impossible.

4822. In order to test the matter, supposing, by some strange visitation of Providence, the prices of everything all over the world were to be doubled tomorrow morning, would that have any effect on India's balance of trade?—Well, Sir, that is not a supposition; that very thing happened in war time. Prices not only doubled, but trebled and quadrupled.

4823. There would be great dislocations, would not there, in one place or another?—Yes, but that happened in war time. We could not hold exchange at 1s. 4d. We had to let it go and find such level as it could. But I am not talking of such times, I am talking of normal times.

4824. I do not think war experience assists us very much, because a feature of the war period was the considerable dislocation of relative prices as between one market and another. However, let me pass from that to the next question. In the next paragraph you deal with some aspects of the import of gold. You say: "The surplus savings of the country are being diverted more and more into gold and people prefer to buy gold rather than cloth and other necessities of life." Do you see, in the available figures, any evidence of the demand of the country for gold having been at all satisfied for the present? —Sir, I have said in my little statement that India can never be saturated with gold. We can never go on that assumption because in the first place the customs and habits and the religion of the great majority of the people enjoins that gold should be used on certain occasions as presents, and therefore India will always be a buyer of gold so far as that

goes. But the point I have made in this second paragraph on the second page is that if you lower the price of gold from Rs. 24 to Rs. 21-3, well naturally people will buy gold in preference to anything else, accustomed as they are to buying gold, accustomed as they have been to buying gold for a high price, to be suddenly given gold at Rs. 21-3. They must buy, they did buy and they will continue to buy. I do not expect any such saturation. India has never been saturated with gold. As a bullion broker for the last 34 years I can say that never has India been saturated with gold. She only stops buying gold when her production falls off through famine or other causes.

4825. And she begins to buy as soon as times improve?—Yes.

4826. From your wide practical experience of this particular aspect of the situation, could you give us any enlightenment as to where this gold goes?—I am in Bombay always; I seldom go up-country.

4827. I do not mean geographically; what is it used for?—In the first place every Hindu (and the Hindus are two-thirds of the population of India) must, when he marries, give what is called Stri Dhan, that is, a gift of gold to his wife; Sir Purshotamdas Thakurdas could confirm that; and that custom cannot go; it is enjoined by their religion; then they have certain years for the marriage season, that is, a propitious time for marriages; and in those years the demand is abnormal. Then there are years which are not propitious and the demand falls off; but there is a big average demand for these purposes.

4828. Therefore in good times, as the family's position improves the dowry to the daughter about to marry is increased and this increase is in the form of gold ornaments?—I should think so; I am not a Hindu, but if you ask any Hindu gentleman he will probably confirm this statement. It is in proportion to their means; the very well to do classes do not confine themselves to gold; they go for jewels, diamonds, pearls and such gold; but gold they must give; that is written in their Shastras, gold and silver.

4829. If I ask you any questions about this and I go astray owing to our relative ignorance about the habits of the Hindu household, fortunately we have members of this Commission who can put me right in supplementary questions. It seems to me interesting to bring out this point. If that is so, one must look upon this as an inexhaustible sponge for sucking up gold, because the wealthier the country the wealthier the well-to-do Hindu family becomes. There is really no limit to the amount which could be used for ornaments of gold when a Hindu marries his daughter?—I would not say that; supposing a Hindu is worth five lakhs and the dowry is Rs. 10,000, he does not give such a disproportionately large quantity of gold; a certain quantity is in gold and the rest in jewels. I do not think there is any fear of India sponging up all the world's gold.

4830. It is these considerations you had in mind when you said that India can never be saturated with gold?—That is one consideration; but the main consideration is this: people say that the price is lowered and 73 crores have come in and therefore the country must be saturated; I do not believe in that theory.

4831. Will the apparent cheapness of gold in comparison with other commodities, such as cotton, cloth and so on, be in your opinion a permanent feature, supposing the rate of 18d. were to be maintained, or would it work itself out as prices adjust themselves to the 18d. rate?—It will take many years to work itself out.

4832. You would expect for many years the people of India to look upon gold as still cheap in relation to commodities?—Yes.

4833. Continuing, I understand that you contemplate a reduction to 1s. 4d. and that you would put a burden upon the budget, whether it is temporary or otherwise, which would amount to something in the nature of three crores?—Yes.

4834. I understand you would say, in the first place, that that should be covered by economies?—Yes.

4835. But I also understand that, if it could not be covered by economies, you would not shrink from recommending that the additional burden should be covered by additional taxation?—I would prefer additional taxation to screwing money out of the people by raising exchange and I have given the reason why. That is much preferable to getting that three crores by raising exchange as has been done in the last three years.

4836. I quite follow that; but, making a further comparison, as against retaining the present rate and thus incurring no additional burden in the budget I understand you would prefer that the rate should be lowered, and you would not hesitate to say that, if it were necessary, the gap should be covered by additional taxation?—I would prefer that.

4837. Increasing the burden of taxation has peculiar difficulties, has it not, in India now?—Direct taxation, of course, the people will resent; but if they saw the point which I have made here, that the indirect taxation is a great deal more than the three crores which the Government gather into their treasury, they would say that they would rather pay the direct taxation than this indirect taxation.

4838. Turning back to the position of the wage-earner which we have already considered, we rather arrived at the position that the wage earner's wages were not rising. If they resulted in a fall and he also found that he might have to pay additional taxation in order to balance the budget, it would not seem to be an attractive proposition to the wage-earner?—This is a question of three crores of rupees divided among 32 crores of people; what does it come to per head: further it need not be on the wage-earner; it can be equally distributed among the various classes, the wealthier and the poorer classes; there are ways of doing it.

4839. In the last sentence of paragraph 6 you say: "A budget which balances itself by raising exchange is unsound financially and economically." Might not some critic use that phrase against your argument by saying that a budget which is unbalanced by reducing exchange is no more sound economically or financially than the reverse procedure?—The Government started it by raising exchange; if you put the question to me that exchange was 1s. 4d. at this time as it was for many years and I were to say "reduce it to 1s. 2d.," then you could direct that remark against me; but not now, for the reasons I have given.

4840. In the following paragraph we come to an argument which possibly you can elucidate for us. You say that the natural rate of exchange is the rate at which the silver content of the rupee is exchanged for gold. I find some little difficulty in understanding the precise connotation of the word "natural"; and in order to clear my mind let me ask, in the first place, whether you would be in substantial agreement with an opinion which has been very often expressed to the Commission that the true way in which to look at the silver rupee is to look upon it as if it were a note printed on silver. Is there substantial truth in that?—I think so.

4841. If the silver rupee is a note printed on silver, one would feel tempted to test your contention here by asking, is the natural rate of exchange in respect of a paper note the rate at which the paper contents of that note could be exchanged for gold?—But what does that paper note represent? If you want to sell that piece of paper as a piece of paper it has no value, whereas the rupee, though you may call it a note printed on silver, when you want to sell it, can always be sold for its bullion value; the analogy does not hold; one is quite different from the other.

4842. I apprehend your reply, that there is this difference between the paper note and the rupee note, that the intrinsic contents of the one are greater than the other; but I am looking at it from the point of view of exchange and not from the point of view of intrinsic value at all. Does the word "natural" there get us any farther if we recognise that, in the

same way, the natural value of the paper note is a preposterously small value unless you take it as a token? Are we not there, when we are considering exchange values, devoting attention to a circumstance which is totally irrelevant?—I cannot answer it, Sir, straight; but I will answer it in this way: what was the rate of exchange in 1893 when they closed the mint? The value of the silver contents of the rupee expressed in gold was the rate of exchange; that was the natural rate of exchange for a century or even more. What did we do then? We said "We do not want it. This rupee fluctuates too much; we will therefore give it a price, not a natural price, but an unnatural price." And we fixed it at the unnatural rate of 1s. 4d. after great hesitation. Some of the members of the Herschell Committee were opposed to 1s. 4d.; they said it was unnatural, it was too high; but it was fixed at 1s. 4d. Was that a natural rate of exchange? That is my point. That was an unnatural rate of exchange at 1s. 4d. We have in the last two years shoved it up from 1s. 4d. to 1s. 6d.; and in last year's budget it has been described as the natural rate of exchange; how is it the natural rate of exchange? I say it is more unnatural than ever. 1s. 4d. is unnatural; 1s. 6d. is more unnatural; 2s. is most unnatural and is an absurdity. I am quite right in saying that this is not a natural rate of exchange; it is an artificial rate of exchange which we have created by making a scarcity of rupees. That is my point, Sir.

4843. I quite appreciate that it is necessary to draw a distinction between a natural and an artificial rate. My question is merely an attempt to ascertain whether the test for a natural rate which you suggest is a sound one, and I tried to express it by an analogy. I will put the question in this way. If it is desirable to fix, as I understand you to contend, the exchange value of the silver note as near as possible to its natural value, the value of the contents of silver, would it not also follow that it would be desirable to try and fix the value of the paper note as near as possible to the trifling value of its own paper content? —That is a question I cannot answer, Sir. I have already answered it indirectly.

4844. That was rather dwelling on the last sentence in the paragraph that "even the 1s. 4d. ratio is not the natural rate, but is nearest to the natural rate, and should be forthwith restored." In the middle of that paragraph you say: "After years of industrial and economic trouble this unnatural rate of 1s. 4d. became effective, and prices and wages and other conditions settled down to the new ratio." What would your opinion be, supposing the contention were to be put to you, that, in the same way, after a period of industrial and economic trouble the rate of 1s. 6d. had become effective and prices and wages and other conditions had settled down at the rate of 1s. 6d.?—I have already answered that, Sir. It will take years. We will have to suffer. Why should we? What have we done to deserve that suffering simply because the Government want three crores more in their budget? I have already said we are willing to pay as a nation. The nation would rather pay their three crores than have this industrial and other depression in the country. That is indirect suffering. That is indirect taxation.

4845. The basis of your reply, if I do not misunderstand it, is that prices, wages and other conditions have not settled down at the new ratio?—They have not, Sir.

4846. Are there any statistics by which one can enlighten oneself upon that question as to whether prices and wages have settled down at the new ratio? It should be a matter susceptible of statistical examination, I imagine?—Yes, Sir, the figures can be produced and studied.

4847. Which figures would you refer to for the purpose of illuminating one's judgment as to whether conditions had settled down at the 18 penny ratio or not?—You mean wages had settled down to the 18 penny ratio?

4848. Whether substantially conditions had adjusted themselves to the new ratio, or whether, on the other hand, as you express the opinion, there are still maladjustments?—If you study all the statistics of prices, the cost of living, you can arrive at that? But that is not the only consideration. The main consideration is can industries in this country stand up against that ratio? That is the main question. Can there be an adjustment of our industries to meet foreign competition at that ratio? I can say that there is no such adjustment now.

4849. As regards prices, I believe we have ascertained that the chief, if not the only, statistics available are the index numbers usually referred to as the Calcutta Index Numbers?—Yes.

4850. In your opinion, do the recent movements in those numbers show any substantial lack of adjustment between Indian prices at the present rate of exchange in comparison with the general level of prices as disclosed by the Index Numbers of the other principal gold-using countries?—Well, I have got a memorandum, Sir, from the Secretaries which gives these figures. The exchange was 1s. $4\frac{1}{32}$d. in September, 1923.

4851. May I ask what those figures are that you are quoting now?—This is the historical memorandum which has been prepared for the Commission of which I have been given a copy, Appendix VII.

4852. Appendix VII of the Historical Memorandum. I will just turn that up, if I may, so that I may follow you?—If you come to September, 1923, the exchange rate is 1s. $4\frac{1}{32}$d. I take that figure because it is near 1s. 4d. The English index number is 160, the American 154, and the Indian 174. Then I would go straight down to July, 1925, on the next page, Sir. There Great Britain is 165, that is 5 higher, United States 159, 5 higher, and Indian 160, that is 14 lower, compared to the parity 160. And at that time exchange was 1s. 6d. It had just touched 1s. 6d.

4853. The figures of which most use has been made in discussion before the Commission are the comparative figures of the General Index Number of Calcutta, in the first place, the United Kingdom Statist Index Number in the second place, and the United States of America Labour Bureau Index Number. Taking the figures as in August, 1925, we find that, in comparison with the base, Calcutta is 157, the United Kingdom Statist is 158, and the United States Labour Bureau is 160?—Sir, here it is shown as 165 for Great Britain in August.

4854. I think that is the difference between the *Economist* and the *Statist*. With all reservation as to the amount of reliance which can be placed on such an index number, especially in view of the rather summary methods introduced into the Calcutta index number, for what they are worth these three figures, 157 Calcutta, 158 United Kingdom, and 160 United States of America, would seem to show, within the necessary limits of error, a substantial equalisation of prices under present conditions, would they not? The variation between the two British index numbers quoted of 158 and 165 is probably due to a difference in methods of calculation?—Yes, Sir.

4855. As to the cost of living indices, I think you have some figures available. Have you been able to consider those?—I have not got them here, Sir.

4856. We must draw our own conclusions from them. I need not burden you with them if you have not had an opportunity of considering them?—But may I make a statement, Sir?

4857. If you please?—You see I have taken these figures of September, 1923, and I have then compared them with those of August, 1925. The movement to raise exchange commenced about this period, September, 1923.

4857A. On what grounds did that movement take place?—The Government justified it by saying that they had to raise the exchange in order to stabilise prices in India. And in the last budget they said that they had done it. Well, then, my point is they took credit for which there is no justification. Prices had already stabilised in Europe

and in America and India in 1922-23. Where was the necessity of raising exchange in order to stabilise prices in India? Where was the justification? I say it was deliberately done in order not to stabilise prices but in order to raise exchange for various reasons. And I say that there was no justification for that movement, looking at these index numbers. It was a deliberate attempt to raise exchange and therefore in my humble opinion a deliberate wrong has been done to this country, particularly to its industries and to its agriculture. It has been repeatedly stated by high Government officials that it was in the interests of the country they were stabilising prices. Where is the justification on these figures, Sir? Here is this historical memorandum and in paragraph 18 and the previous paragraph they don't conceal the fact that they deliberately raised the exchange. They say they contracted currency. Why did they do it? Where was the justification for it? I don't think that they can sustain that contention of theirs that they raised exchange in order to stabilise prices in India. There is nothing in the figures here to show it and it is a Government memorandum. Therefore on that point I say that a wrong has been done to this country in raising exchange on that plea. Therefore exchange should be put back to 1s. 4d. for that reason, if for no other reason. It was wrongly raised to 1s. 6d. on a wrong plea.

4858. Would it be an unquestionable proposition that, in September, 1923, Indian prices, as revealed by the index number, were substantially stable? I observe that in the course of that year they varied between 170 and 180?—Yes, they did. But practical stability was reached in 1922. It started getting to practical stability then and since then it is thereabouts.

4859. Further, we observe that, during the period to September, 1923, there was a very substantial discrepancy between Indian prices and world prices as revealed by the United States and Great Britain index numbers?—Yes, there was—174, 160, 153. So I wish to emphasize this point which I have put before you now, that exchange has been raised on the plea of stabilising prices. That action on the part of Government cannot be justified on these figures. Therefore it should be put back.

4860. You recognise that, when you make the final conclusion in your argument, that does raise the question as to whether conditions have or have not, in your opinion, adjusted themselves to the new rate, and that there would be disturbances involved in any further alteration of the rate?—Sir, in my opinion it would be a great advantage even to have little disturbances and go back to 1s. 4d.

4861. Continuing your next paragraph in development of your argument, paragraph 8, I understand in this paragraph you express a doubt as to whether the present favourable balance of trade is likely to be maintained?—I have very great doubts about it, Sir.

4862. In your opinion is it possible for the foreign trade of any country to show anything but a balance as between exports and imports, visible and invisible, for more than a very brief period?—To show a balance in favour, Sir?

4863. To show anything but a balance as between exports and imports, visible and invisible, for more than a very brief period?—It must show a balance one way or the other, if you are reckoning visible exports and imports; if you take invisible and everything, then it must come to an adjustment somewhere.

4864. Except for very brief periods of dislocation, and particularly in a bad year, or when the country is running into debt or conversely?—Yes.

4865. If that be so, if it is impossible that there should be a substantial balance, could you explain why it is easier to maintain a ratio of exchange at a stable high level rather than at a stable low level?—In India we have got enormous foreign liabilities. The higher the rate of exchange, the greater the strain on the country to meet that liability. We have got to consider that. I think that India has to remit nearly a hundred crores of money every year to meet foreign charges of various kinds, Government and private. Well the higher the ratio you put, the greater the strain on the country to meet it. You must export more in commodities to meet the foreign obligation.

4866. You consider that is a permanent factor which continues to operate, even after all adjustments of prices and so forth have taken place which result from any change in the ratio?—Well, the permanent factor is the Rs.100 crores to remit; you cannot get over that. You must meet it every year, and then it must depend on world prices whether you can meet it or not, and in my opinion if you fix it at 1s. 6d. it is too high to meet; it must create a strain. The year that you cannot remit, you must then devise methods to remit that money by contracting the currency and by other measures, and the effect of such action is disastrous on trade and industries. Why should such a risk be taken—a high rate of exchange being fixed, and then trying and maintaining it at all costs at the cost of the people? Where is the necessity of fixing it so high? During the experience of nearly 25 to 30 years the 1s. 4d. rate was nicely maintained; why should we not revert to it?

4867. Finally, with regard to the internal aspects of a change in the ratio, half way down page 3 you express the opinion that "any change of the ratio from 1s. 4d. must upset the relations between debtors and creditors." What would your opinion be upon a contention which has been advanced that, as a matter of fact, all such relations have been so much upset by the period of extremely fluctuating ratios through which India has passed that the minor difference between the present rate, say 1s. 6d. and your suggested 1s. 4d. would really be negligible in comparison with those upsets which have already taken place?—Sir, those upsets were in abnormal times. Prices were all upside down. India was getting enormous sums of money for her produce owing to inflated prices on the other side, the destruction of commodities on the other side. Such things are not noticeable in disturbed times, but they become very visible in times like these when things are settling down. Then people begin to feel it. You may not feel a thing in years of great prosperity or years of great economic excitement, but when it all cools down, then the effects are more felt, even slight variations would be felt. We were able, for instance, to face any foreign competition when exchange was two shillings. Our industries were thriving. Now with exchange at 1s. 6d. we cannot face it, because the times are settling down, competition is growing. There was no competition then.

4868. I am not sure that I quite follow that. Of course in times of great excitement, distractions are provided to distract attention from mere monetary losses, but nevertheless a sharp rise of exchange to over two shillings and so on will have affected an actual financial disturbance of the relations between debtor and creditor, whatever distractions there were at the time to call attention away from that circumstance, will they not?—I did not quite catch your point.

4869. I did not quite follow why the factor of a disturbance of the ratio, such as that to which you refer during the war period, should be of less importance only because the times are abnormal?—It is because we do not feel it, because the prices are so inflated that we do not feel it.

4870. Why should one feel such a circumstance more at one time than at another?—When things have settled down, you will feel such things more. When a man is flourishing, when a nation is flourishing from various extraneous causes, we may not feel such effects; when the realities come, the sufferings begin.

4871. You say they have more time to think about their troubles. Nevertheless their troubles have an anodyne in the form of excitement?—We do not feel it in those circumstances.

4872. However, that is entering a field of psychology too remote for this Commission. As regards the question of the disturbance of the relations on contracts, let me put to you, in order to elicit your opinion, another contention which has been advanced. As I understand the case for the equity for the 1s. 4d. ratio, it is that a disturbance of that ratio disturbs the basis of all contracts in India when that ratio was in force. The contention to which I refer is that that ratio has been in force for some time. It is, therefore, only the long-term contracts which have got to be considered in that connection. On the other hand, you must see that a departure from the 18d. ratio would disturb the relations between debtor and creditor in respect of all short-term contracts in India during the prevalence of the current ratio. What, in your opinion, is the relative importance of these two interests, the interests based upon long-term contracts and those based on short-term contracts. Is there any means of evaluating the relative importance to be attached to the two categories of interest?—It would be more felt in the case of long-term contracts than in the case of short-term contracts. That is all I can say, but it would be felt. The one would be felt over a longer period.

4873. Would you find it possible to take the further step of making any estimate as to the relative importance of the two categories, the long-term and the short-term interests?—I am afraid I am not able to help you in that matter.

4874. In paragraph 13, you say that "If exchange had been allowed to recede to 1s. 4d. gold point, and Government had shown its willingness to maintain it there, a free flow of money into and out of India would have immediately commenced, the money rates in India would have fallen and tended to approximate to the Bank of England rate, the nervousness in the money market so noticeable in 1922 to 1925 would have disappeared, a great demand for Government rupee securities would have sprung up, the Government rate of interest on their loans would have immediately fallen, and the yearly interest charge would have been considerably reduced." Further on, in the next paragraph, in the same connection you say that "not only has the rate of borrowing for Government loans been high in the last few years, but the Indian Corporations have also had to pay high rates for their borrowings in India and the flowing of money into Government and Corporation loans at high rates has made it exceedingly difficult for industrial concerns to raise money either by way of debentures or preference shares, and has been a serious check to industrial expansion, particularly in Western India." I want to put against that what might be the contention of a critic. Might not a critic say that all these desirable consequences to which you refer as regards the easing of money, the facilities for the issue of debentures, the reduction of interest rates and so on are advantages which can always be gained by any measure of inflation; and might he not put against you that what you are really advocating there was the advantages which members of the school which advocate inflation desire to obtain, but which the experience of other countries, which have actually seen inflation, has taught them to be very temporary advantages which carry with them very dangerous consequences which more than counterbalance the temporary advantages obtained? Would there be anything which you think would be worthy of a reply in such a criticism?—I can answer that, Sir. When you talk of inflation, what kind of inflation is referred to? In the other countries referred to the inflation is abnormal inflation, an increase in the note issue by various Governments, as is now going on in France. If you refer to that, I agree with you; but when I say that by having a fixed rate of exchange, you get money into the country in the natural course of trade, that is not inflation. If India gets more money for her produce, the money comes in the natural course and that cannot be called inflation. I do not want inflation. I do not suggest inflation by going to 1s. 4d. Besides, as I have said in one of these paragraphs, the inflation will check itself. Automatically there will be deflation if there is inflation.

4875. You would not advocate inflation in any form? —No, I do not.

4876. The characteristic of inflation, is it not, is that the purchasing medium is increased in proportion to the goods and services which that money has to purchase?—Yes.

4877. And when that takes place, then there are these consequences to which you refer here, that is a fall in the rate of interest, a greater ease in the money market, and so on. But, as you say, there is no inflation. If the purchasing medium is continually to be increased in proportion to the increase in the turn over of the goods and services, how would it be that there will be a beneficial experience in the easing of the rates of interest and the general facilitation of new issues and greater ease in the money market?—This way, that if you fix exchange, all the exchange banks here are to make money with a fixed rate of exchange; if they find that there are securities in the market yielding good rate of interest they will immediately draw upon their London office, put the money in the market, buy the securities and the value of the securities will rise and the rate of interest would fall. That is another consideration apart from the natural increase in currency that may follow in trade movements. I have seen such things in pre-war days, exchange banks taking advantage of every such difference in rates in securities between England and India. It used to be a regular business. How can banks do that when exchange is uncertain and fluctuating? Money rates are forced up and they cannot bring money. They do not know what will follow, and the natural consequence was that the money rate was raised. Government continue to pay high rates and industries cannot get any money at all. You cannot float any debenture except at 8 or 8½ per cent. You cannot float a preference share in Bombay unless it is 8 to 9 por cent. and then you must pay enormous commissions to get it.

4878. But must not we look at it from the view of this fundamental consideration, that in order to get, in this connection, lower rates of interest, in other words cheaper money, you must make money cheaper, and, in order to make money cheaper, you must increase the proportion of money to things to be bought with money. If you do that you are doing what is ordinarily called inflation, and unless you do that, unless you increase the proportion of the purchasing medium in relation to the things to be purchased, there is no reason to expect that you will have cheaper money rates. That is an ordinary little bit of economic analysis, is it not?—There is a connection between the London money market and the Indian market, which connection you have dislocated by recent exchange policy of the Government of India. When that connection is established, rates of interest in India must approximate to rates of interest in London. What I mean is, you must get closer to the London rates and the money will flow not only into Government loans but into industrial concerns also. Foreign money will come in, and if there is an inflation as a consequence of that, as I have said in one of the paragraphs, it will automatically check itself. We used to check inflation in pre-war days automatically. There are checks to inflation under an automatic system of currency. It is not that Government only can inflate and deflate whenever they like at their own sweet will. There are other automatic ways of inflation and deflation which were in force for many years and worked satisfactorily. The effect of Government policy has been to create a money market in India separate from all the other money markets of the world, to starve the market of money supplies so that exchange may go up. We know what the consequences are. They themselves have paid high rates of interest all these years. Those rates would have been lowered long ago. What is the cost to the country of that? They have 3 crores in the budget, but what is

the cost of those policies? Increased rates of interest and high rates of conversion that they had to pay. That is my point.

4879. Under question 3, paragraph 15, you say, "If it is decided to revert to 1s. 4d. ratio, I am of opinion that the transition should be achieved step by step." Let me put to you again another contention. What would you say to the contention that, supposing it is decided to revert to the 1s. 4d. ratio and that policy is announced, it will be impossible to maintain any intermediate stage; that the fall would immediately be anticipated by dealers in the exchange market; that it would be sharp and sudden to 1s. 4d. and that it might go even below 1s. 4d. followed by serious fluctuations of a somewhat violent nature, which will have a very disturbing effect on trade?—You mean to say, Sir, that exchange will fall suddenly to 1s. 4d.?

4880. Yes?—I am afraid I must agree with you. It will have that effect. If you once say that your policy is to be 1s. 4d., then it will go down precipitately. It will be difficult to check unless at that time there is a very big balance of trade in favour of India and if it is done at an inopportune moment it may go straight down to 1s. 4d.

4881. If that be so, will you tell us from your practical knowledge of these things whether, under the circumstances, it would be possible for importers to keep their exchange covered?—Yes, Sir, I have said so here. To-day in Bombay you can buy exchange 12 months forward. Day before yesterday business was done for T. T. on London at 1s. 6⅜d. for December, 1926, whereas the ready rate is 1s. 6 7/16d., only a 16th difference. Why should an importer when he wants to import a year ahead, why should he not cover and why should he run a risk? And if he runs a risk Government cannot be responsible for that, when he has every facility to cover his exchange. If exchange is lower forward that point may arise. But exchange is the same for 12 months to come.

4882. I do not know, but supposing it is once known that exchange is going to fall to 1s. 4d., can the importer deal in this way and cover his forward exchange?—An importer to-day wishes to buy so much longcloth from Manchester. He sells it to his dealer here and the next moment he can fix the exchange. He need not wait. If any importer speculates in exchange and keeps it open that is his folly. He cannot tell the Government then "you put me in trouble." It is his own folly and not the Government's action.

4883. Then we come to your recommendations as to the basis of a currency system. You are in favour of a definite move towards the establishment of a gold standard, by which we understand is implied in some form a gold currency?—Yes.

4884. You recommend the stopping of the rupee coinage, which is, I think, the only remedial measure which you would take in order to establish the gold standard; and you say in the next paragraph "as regards the gold standard reserve, it will not be added to if there is no further coinage of rupees, and the interest on the same should we carried to revenue as now. When the gold standard is fully established the reserve can be used for some purpose beneficial to India, *e.g.*, reducing her sterling loans." Does that apply to the whole gold standard reserve, 40 millions' worth of it?—What will be the use of it when once the standard is established? If you get sufficient reserves of gold in the currency, why should the gold standard reserve be kept? When your currency is gold and rupee is a subsidiary and is a real token coin, there is no necessity for the reserve.

4885. Your reserve has got to fulfil the purpose, has it not, of protecting the exchange value on the whole of your internal currency?—Yes.

4886. Would you then have the internal currency consisting of notes and gold only or gold and rupees? —Notes and gold, and rupees only as a subsidiary, as a token coin with a very limited legal tender.

4887. And in your paper currency you would have enough gold to cover the outstanding notes?—Once it is properly established, it will be so.

4888. As regards the rest of the currency, you would rely wholely upon the gold which will return from circulation, or the contractibility of the gold circulation in order to adjust the balance of international payments?—Yes, and on the gold in the currency reserves.

4889. That suggests the question, what reliance do you think can be placed upon gold in circulation to fulfil the purposes of a reserve for international payments in case of a bad year and a temporary turn in the exchange? Is it prudent to rely solely upon the return of gold from circulation?—You see the position is that supposing there is a gold standard established, and, say, about 100 crores worth of gold is in circulation and a bad year comes, people must part with that gold to buy things from foreign countries. That gold must go to the banks in payments for imported produce. It will then go into currency reserve again and be exported. Such things have been known in the past. I have known in famine years gold dealers besieging banks day after day with huge amounts of gold for sale and gold was exported to sustain exchange, otherwise the exchange could not have been sustained in those years. There are statistics to show the exports of gold from India. In a year of scarcity gold does come out. In a year of very high prices also for gold, gold is exported. In the period after the War when gold went very high large quantities were again exported. I do think once the gold standard is fully operative that gold will come back, must come back into the banks and flow from the banks into the currency office and be available for export. There is past experience for this.

4890. The steps you are contemplating are, first of all, the initial stages when gold coin should be given freely—that is, against rupees or notes?—For notes, I mean, Sir; and also if they give gold coin or gold, that is merely an exchange. What I really mean here is in exchange for notes.

4891. But not for silver rupees?—No.

4892. You would make the note encashable in gold, but you would not undertake any obligation?—After the establishment of the gold standard, after proper reserves have been amassed, then only this step can be taken. I have said so explicitly, that the Government should not undertake the liability to pay gold till a sufficient quantity of gold is accumulated.

4893. That is in the last paragraph—"The obligation to pay gold is not to be legally undertaken until vast amounts of gold are accumulated in the reserves, &c."?—Yes; Government must make the people know as much as they can that gold is to be the currency and that Government will give them gold, keeping the power not to give gold until such time as the standard is fully established.

4894. What will be the process of the accumulation of gold in the currency reserve; how will it come there?—If there is a favourable balance of trade India will take gold; there will be an automatic inflow of gold on a favourable balance of trade. That will be the main source of the reserves. There are enormous quantities of gold in the country. As people get familiar they will not see the sense of keeping gold locked up; as their financial education progresses gold will not be hoarded any more.

4895. The imported gold will come in exchange for notes?—Yes.

4896. So there will be a steady accumulation of gold in the reserves, and that would result, would it not, in a steady rise in the proportion of the reserve to the outstanding note issue?—It would.

4897. You refer to a vast amount of gold; it might attain a high percentage?—It must be in proportion to the trade of the country. If you deprive it of silver currency you must supply a proportionate amount of gold currency, or notes backed by gold.

4898. What is your view as regards the expense of this process when you have this accumulation of a vast amount of gold in the reserves?—I must refer to this memorandum, a copy of which has been sent to me about the Gold Standard; I received that from the joint secretary. It will no doubt cost something, but the country must stand the cost. We must pay

for our follies of the past. We have bought enormous quantities of silver, paying very high rates owing to stress of circumstances. We have to convert them into gold and pay the price and the penalty for our mismanagement in the past. But the country's general view is that it wants the gold standard and it must pay for it.

4899. Have you been able to form any estimate as to what the ultimate cost of these measures for the introduction of a gold currency would be?—That I cannot say, Sir; I have not given so much time to this question. I received the Government Memorandum only lately during the last two or three days; but it will certainly be a costly process. But the country, so far as I can see, is prepared to pay the cost and get an effective gold standard, and I think the cost of a gold standard eventually will be less than the cost that we have been made to pay over the gold exchange standard through the manipulations and the mismanagement of that standard. We have made enormous losses on that. We have borne it; well, let us bear this also and go on to a proper standard and a much better standard. For instance, during war-time we bought 250 million ounces of silver from America at a hundred cents to 102 cents an ounce, which is an enormous price to pay. We had to do it; but we are losing on it to-day. In fact this memorandum suggests it should be sold off at 24d. if nothing more can be realised. I do not agree with that. It depends on how it is sold. There are opportunities for selling silver. If the world markets require silver there may be opportunities for selling our silver, realising a better average price than the 24d. which this memorandum suggests. It takes rather an exaggerated view of the cost of establishing the gold standard.

4900. With regard to the proposal to which you refer on the question of silver, the proposal is to sell off an amount of silver equal to about three times the world's total present annual production in the course of 10 years. What, in your opinion, would be the effect of that upon the silver market?—That is a difficult question to answer, Sir. Circumstances in future may be such as to absorb that silver, and circumstances may be such that it may be quite impossible to sell that silver; the world may not absorb it. It depends on conditions in India and China. India itself will absorb 12 crores of silver per annum. Government might prohibit the importation of silver into India for a few years and sell off this silver in the country. That is possible, at a fixed rate. But the people will buy a certain quantity of silver, as I said, because their religious customs and other things prescribe it. Fix a reasonable rate and sell it in the country itself.

4901. Are there any foreseeable circumstances which might operate to increase the world's demand for silver in the course of the next 10 years, or, on the other hand, to reduce that amount?—Well, Sir, there are various ways of looking at it. I think the currency demand of India is already less. Whether you go to this gold standard or not, India is not absorbing so many coined rupees as she used to; she is using more and more notes. So India I think is a lesser factor in the years to come as a buyer of silver than she has been in the past. As regards China I cannot say, Sir. Vast developments may take place there; she may buy more; that is a possibility.

4902. Or she might go from bad to worse?—She might do anything; I have no experience on that point, but I should think the Indian demand would be less. There are other undeveloped parts of the world, however, like Africa which may want silver currency, owing to the big population and poor population.

4903. There is one aspect of peculiar interest that I should like to ask you about from your wide experience of the bullion market. Making the assumption made in these memoranda, that from first to last the introduction in India of the full gold standard would require an addition to the imports of gold into India of an amount of gold of the order of about 100 million sterling, what, in your opinion, would be the effect of that upon gold prices in general, and what would be the reaction of that effect upon the social and economic conditions of India?—Well, Sir, we have been always frightened that India will buy such an enormous amount of gold as to upset the world; that is one of the bogies we have been confronted with.

4904. Let me make one little explanation of my question. I am asking the question not at all from the point of view of its effect upon any other country, but simply and solely what would be the reactions upon social and economic conditions in India itself? —As the result of the establishment of a gold standard?

4905. I am asking you to make the assumption that a hundred million sterling additional supply of gold would be required?—The effect of those 100 millions being withdrawn from the world?

4906. Yes, on Indian prices and social and economic conditions in consequence?—This memorandum says it will take 10 years, that is, at 10 millions a year. Well that would produce no effect on the world. If anything the world should welcome it. There is too much gold in the world; too much going to America; why should some of it not come to India; how is it going to do any harm? The establishment of a gold standard in the next 10 years can do nothing but good to India and the world by absorbing the surplus production which the world is not able to absorb. In that way India will act as a reservoir and as a balancer of the gold supply.

4907. Is it the common opinion that the world's supply of gold in the foreseeable future is going to keep pace with the world's demand for gold?—In the near future it looks like that. It looks as if the world's demand will be more than met by the world's supply of gold; in the near future—I cannot say how long.

4908. In the foreseeable future?—Yes, as far as it is foreseeable. Europe does not want so much gold; well then let India have it. This is an opportune time for India to go to a gold standard without disturbing Europe, which does not want much of this gold which if anything is a surplus; well let it come to India.

4909. Finally, on the question of cost, making the assumption, which is made in that memorandum, that the total final cost of the introduction of a full gold standard and a gold currency in India will be something like 1 or 2 crores a year, and adding that to the 3 crores which you have referred to as the possible cost to Government of the reduction of the ration to 1*s.* 4*d.*, I understand it to be your opinion that that total cost of between 4 and 5 crores would be worth paying for the benefits of the two proposals which you make?—It will be a lesser evil than a manipulated gold exchange standard. I am opposed to any manipulation of currency. As the Premier, Mr. Baldwin, said the other day he would not give the management of the currency to any government in the world, and our currency has been so badly managed in the last thirty years that I think we can undergo this cost rather than have this manipulation.

4910. What difference would it make, in your opinion, as regards the elimination of these evils of interference and management to which you refer supposing the currency system adopted in India were to be a perfected exchange standard system, perfected in this manner, that the legal obligation was undertaken to sell either gold for export or foreign currency against internal currency at a fixed rate, and if at the same time the management and control of the note issue, and thus of the currency system of the country, were to be transferred from the Government of India to a central bank? Would such proposals as those, in your opinion, materially eliminate those evils as regards the management and interference which you deprecate?—If a gold exchange standard were made,

if you will excuse my using these words, both knave-proof and fool-proof, there may be something to be said in its favour, if it is not trifled with or made an instrument of exploitation. But otherwise the gold standard is the best. Manipulation of currency in the hands of a government is the most dangerous power that can be given to it, therefore I favour a gold standard; but if it can be made, as I said, both knave-proof and fool-proof so that it cannot be manipulated, there may be something to be said in favour of it, that is all I can say.

4911. One or two minor points before I conclude. I understand you are in favour of the re-issue of the one-rupee note, as a measure, I suppose, for popularisation and increase of the use of notes?—Yes.

4912. And likewise of the transfer of the note issue to the Imperial Bank of India?—Yes.

4913. Also of the transfer of the remittance operations of the Government of India to the Imperial Bank?—Yes.

4914. With the limitation of the remittances to the actual necessities of the Government from period to period. If such a transfer were made, I suppose the question of secrecy, upon which you lay stress, would no longer arise when the transactions are conducted in the ordinary banking manner?—Yes; what I object to and what the market objects to is this secrecy.

4915. Under present conditions?—Under any conditions, because the main supply of money in India is through purchases of sterling by Government or, what is the same thing, the sale of council bills by Government. If that thing is kept secret for thirty days, as it is done now, how could the market know, how could the market judge its requirements? I am opposed to secrecy. There is no reason to keep it secret. If the Government has to remit 30 millions, it remits it in 12 months; it announces it has remitted so much; why should there be any secrecy about it? What is the idea, unless you want to manipulate? Because there is no reason for that secrecy unless Government manipulate exchange? Its business is to get 30 millions to the other side, and why make a secret of the remittances?

4916. The transfer of the remittance operations to the Central Bank would close the door upon any possibility of Government manipulating the exchange market, would it not?—That is so; but even then why should the Imperial Bank keep it secret? There is no reason; I think the world has a right to know how that money is being remitted.

4917. What would be known would be the total Government requirements for the year, which would be apparent from the budget statement, I imagine, and it would be known that those are supplied by the bank to the Government as it were month by month. Is there any further necessity for the publication of that information under such conditions?—The world's trade is carried on with India mainly through means of these remittances. So, how could you keep the thing secret like that from the world? What is the object unless you are manipulating exchange, and what would be the object once you suppose that the exchange is recommended to be fixed by this Commission at a certain rate? What is the advantage to Government? On the other hand it is a disadvantage to the public.

4918. It occurs to me that the publication of the Government's demands upon the bank month by month would convey no useful information to the public at all, because it would not disclose as a matter of fact that the bank had been making these purchases; these purchases would not be earmarked against the Governemnt's requirements at all. All that would be known is that so much is actually taken up by the Government in such and such a month; it might have been purchased at a different period?—If the Imperial Bank kept it secret how are the exchange banks to know whether it is going to buy more of sterling or not? Supposing I am an exchange banker I must know how much the Imperial Bank is going to remit; otherwise how could I know what I am to do? How can I gauge my future action? Of course in the case of a fixed exchange it will only vary between gold points, and it will not be such an important matter; but still it is not a thing that need be kept private; there is no necessity for it. I think the Government have only recently adopted this secrecy policy because they wanted to manipulate exchange; once that manipulation ceases, what is the necessity of keeping it private?

4919. (*Chairman.*) I think that concludes the questions I wanted to ask. They cover most of your recommendations, with the exception of your recommendations as to emergency currency which are set forth in very clear detail. I will now ask you to deal with any supplementary questions which any of my colleagues may want to ask you.

4920. (*Professor Coyajee.*) You have said in paragraph 11 of your memorandum that any change of the ratio from 1*s.* 4*d.* which was the legal ratio for 27 years must upset the relations between debtors and creditors. As regards this, a witness before this Commission has advanced the following argument which I shall put to you for your opinion and criticism: He argues that a great deal is talked about the gross inequity of the proposals to raise the rate of exchange above 1*s.* 4*d.* to the debtors. But the right method of redressing any injustice to the debtors is not to restore the pre-war rate of exchange but the pre-war level of prices, and this, if accomplished, would raise the exchange much higher than 1*s.* 6*d.* What have you to say on that? Could you give us your opinion whether justice to debtors does not require the restoration of the old level of prices rather than the old level of exchange?—Does he live in this world, or does he live in a world apart from the one we live in? If he wants to restore the old level of prices he wants to attempt the impossible; and if he did attempt it, it would mean the most terrible strain on the country, as I have explained in several paragraphs in my statement. There is not, if I may say so, much sense in that criticism, Sir.

4921. But then the argument from equity as regards the exchange loses much of its force?—It does not lose its force at all, except that you want to live in a price level of your own, secluded from the world. Then you might argue like that, not otherwise; the question of exchange immediately comes in.

4922. He then says that the outstanding contracts which were entered into before the present ratio came in cannot be very many. That is another contention?—There must be millions of outstanding mortgages and contracts between debtors and creditors; there are outstanding contracts between Government and the people, and there is always revenue to be paid to the Government, which is a great contract, as it were.

4923. (*Sir Purshotamdas Thakurdas.*) I would like to ask you one question regarding what you have said in paragraph 15. If a return to 1*s.* 4*d.* involves inflation, would you call that what is generally understood by the word "inflation" or would you say that this is stoppage of artificial and unjustified deflation in India?—I would.

4924. Is it likely that that is what was in your mind?—Yes.

4925. (*Sir Reginald Mant.*) You have stated in your memorandum that as gold prices fall the trade balance in favour of India will get less?—Yes.

4926. And you explained in reply to the Chairman, quite correctly, I think, that India will get a smaller price for the produce which she exports and will pay a smaller price for what she imports?—Yes.

4927. And the balance left over will also be smaller; it will be smaller, will it not, in money, but will the purchasing power of that balance be any smaller? Will you not be able to purchase exactly the same amount of commodities with that balance?—With that balance of trade in her favour?

4928. Yes?—Measured in money, you mean, Sir, the balance of trade would be less.

4929. You are perfectly correct in saying that. What I wanted to know was this, although it is less measured in money, will it not be of the same purchasing value because we are assuming a general fall in prices?—May I put it this way, Sir? What would you do with that balance of trade? In the first place, should the Government utilise it to make their remittances? Therefore the balance which you have created by commodities goes apparently to meet that Government remittance. Those commodities at that rate of exchange must be proportionately more. Therefore the people will have to export more in commodities at 1s. 6d. than at 1s. 4d. to meet that Government remittance. That is the first hitch. All the balance of trade does not go into the pockets of the people. How do the people benefit by creating that smaller balance of trade which, measured in money, has a larger buying power?

4930. You mean really that India will suffer from a fall in prices because the burden of her debts will be greater?—Yes, Sir, measured in commodities, it will be greater.

4931. That will equally happen whatever the rate of exchange may be?—If it didn't exercise any influence on prices it would. But at a higher exchange, with lower prices, other things being equal, it must.

4932. The higher exchange would tend to reduce that burden of foreign debt?—It will raise it, Sir. Because the people will have to pay more in produce to meet that foreign debt. Not less, but more.

4933. How will they have to pay more at the higher rate of exchange?—Well, that is not met by money, but by produce. If you lower the value of that produce we must give more produce to meet that debt. Therefore, we are losers. I mean the country is a loser. If to meet that debt at 1s. 4d. you have to export, say, a million bales of cotton, then at the higher exchange you would have to export a million and 125 thousand bales to meet it. In produce it is more. It does not look so in money, but in produce it is more because, other things being equal, you must do it, otherwise that Government remittance cannot be made.

4934. But how will raising the level of exchange reduce the price which you get for your cotton abroad? If you export a million bales, is it?—Say a million bales; we actually export two and a half million bales from Bombay.

4935. By raising the rate of exchange, you would reduce the internal price in India. You would not affect the price which you get for cotton abroad? Why would you have to export more cotton to meet the same amount of sterling obligation?—Well, supposing the price of cotton in Liverpool is 10 pence a pound in 1924 and the exchange is 1s. 4d. In 1925 the price is still 10d. per pound in Liverpool but the exchange is 1s. 6d. Then to get the same money you must export 12 per cent. more cotton.

4936. We are assuming that the price in Liverpool is still 10 pence?—I assume that the price is stable. But even supposing prices went up, then India would not get the advantage of it to the extent of 12 per cent.

4937. But assuming that the price in Liverpool is stable and we sell our cotton in Liverpool, surely we should get the same amount in sterling for it and we should not have to export more cotton to discharge our sterling liability?—How can we do that? Supposing I am a merchant and I want to buy a thousand bales of cotton for Liverpool. The price this year is 10d. at 1s. 4d. exchange. The next year it is 10d. at 1s. 6d. exchange. I go to a merchant and at 1s. 6d. exchange he must give it at 12 per cent. less price in India. Otherwise that transaction will not be put through.

4938. But you said just now that the man would have to export more cotton. We weren't referring to the price he would pay in India?—Well, he must export more cotton to get the same value in money.

4939. To meet the same sterling obligation?—Yes.

4940. I am afraid I cannot see it. Now, you referred in your memorandum and in your answers to the Chairman to the greater drain that would be felt in India by fixing the exchange at 1s. 6d. instead of 1s. 4d. I didn't quite follow the reasons that you gave for that view. I should be glad if you would explain it further?—Well, again, we must assume, Sir, that prices are the same as the outside world prices for all kinds of produce that India exports. As I said, the merchants there, when they do their business, look to their exchange. If I as a merchant get an order from Europe to buy a thousand tons of linseed, I ask my broker: "What is the rate of exchange?" He says: "1s. 4d. this year." Next year I ask him: "What is the rate of exchange?" He says: "1s. 6d." The rate for the linseed being assumed to be the same, I must tell the man who sells linseed: "I will give you 12½ per cent. less for the linseed, otherwise I can't sell it in Europe." The merchant must therefore sell the linseed at 12½ per cent. less, or it will not be exported.

4941. But you say that the higher the ratio the greater the drain that the country has to meet?—Which paragraph is that?

4942. The end of paragraph 10?—Well, Sir, then it refers to that remittance of 100 crores per annum. You have got to remit commodities of the value of 100 crores or if measured in pounds, say 70 million pounds, which is the foreign indebtedness of India measured in gold. You must send it out of the country in the shape of commodities. Or you must export gold, but that is not the question. Well, then, other things being equal, to get that 70 million pounds abroad I must sell a larger quantity of produce at 1s. 6d. exchange than I would have to sell at 1s. 4d. exchange. You will have to sell a larger quantity abroad—if I have to pay you 70 million pounds in London and I can only do it by exporting my produce. I go to a merchant and say: I have got no money to give, but I have got these bales of cotton. The merchant will say: All right, I will give £72 in London if you give me five bales of cotton if the exchange is at 1s. 4d. If the exchange is at 1s. 6d. he will say six bales of cotton.

4943. Are you referring to an internal transaction in the country?—No, Sir, the reference is to the foreign debt of India. This is what I mean, that to meet the foreign debt of India I must export more produce to meet that foreign debt at 1s. 6d. than at 1s. 4d.

4944. Although we are assuming that the foreign price will be exactly the same?—Yes.

4945. I am afraid we come back to the same point. I am unable to follow you?—I am sorry, but the paragraph refers to the foreign debt of India, and at a higher rate of exchange you would have to export more produce to meet that debt, other things being equal.

4946. That is your view. We will leave it at that?—Yes.

4947. Then in discussing the rates of interest prevailing in India you pointed out correctly, I think, that the difference between the rates prevailing in India and abroad is largely due to the fluctuations of exchange and uncertainty as to the future course of exchange. You said, I think, that if exchange was stabilised the rates would tend to approximate?—Particularly to the London money rate.

4948. That is an argument really for stabilising exchange, is it not, and not for stabilising it at a particular rate?—Yes, I agree with you there, Sir. If it is stabilised once, then that argument is correct. Stabilise it and the outflow of money will be all right.

4949. Just one other question, Mr. Dalal?—But may I supplement my last answer? If you stabilise that exchange at a rate which in the general opinion of the country is too high, and if the country doubts if it can be maintained for all time, then some trouble will begin to arise. Doubt will begin to arise in the minds of the operators of money that the Government may not be able to maintain exchange, and the same trouble will arise.

4950. Yes, I follow that. You referred to the objections to secrecy in regard to the Government remittances, and you mentioned, I think, the sale of council bills as well as the purchases of sterling. Did you imply that there is undesirable secrecy in the procedure for the sale of council bills?—Well, Sir, when there is a sale of council bills there is no secrecy, it is an open operation. But the Government stopped that and began to buy sterling in India, which is the same operation at the other end, and when they started buying sterling at first there was no secrecy. Every morning we knew that Government had bought so much. But gradually we knew this only once a month.

4951. That is the point I want to clear up—that your objection to secrecy related to purchases of sterling and not to the sale of council bills?—No, Sir.

4952. (*Sir Henry Strakosch.*) I am afraid I have to go back to the question which you have just discussed with Sir Reginald Mant, namely, the effect of the raising of the exchange from 1s. 4d. to 1s. 6d., its effect upon the balance of trade, and consequently its effect upon the foreign liabilities of the country. Personally, I am sorry I could not follow the argument which you have advanced in that regard. Let us first take the many liabilities of the country abroad. Let me introduce it by putting this to you. Do prices in India adjust themselves to world prices as they move?—With a fixed exchange, it must.

4953. Therefore it is true to say that gold prices in India move in direct relationship to gold prices abroad?—They must with a fixed exchange, other things being equal.

4954. Whatever the exchange may be fixed at? Let us say it is fixed at 1s. 6d., then at that ratio gold prices in India would move in direct relationship with gold prices abroad?—Once it is fixed, yes.

4955. How do we pay our debts abroad, obviously by shipping goods?—Yes.

4956. Very well, if we ship goods abroad and if prices in India move parallel with prices abroad, why should there be a greater amount of goods going out of the country to pay a fixed foreign debt? That is the point I cannot follow?—But the point is at what rate of exchange it goes out, at 1s. 4d. or 1s. 6d. That was what I was talking of in my answers to Sir Reginald Mant.

4957. May I put it to you then in this way. If a commodity at 1s. 6d. stood at a hundred in the world, gold, that self-same commodity at 1s. 4d. would stand 12½ per cent. higher, would it not?—It should.

4958. Very well, then, that hundred becomes 112·5. Therefore if you reduce your rate of exchange from 1s. 6d. to 1s. 4d., you would be raising the price internally from 100 to 112·5?—Everything else being the same.

4959. But it cannot be the same? That is just the point. If you move your exchange, everything else cannot be the same, because your internal prices, if they are to move parallel with your external gold prices, must move accordingly? Therefore I cannot see why, if you change your ratio of exchange, you should ship more goods than before?—You have of course put it in your own way and I can only explain it in my own way.

4960. Would you be good enough to show me the flaw in my argument? We start from the proposition that gold prices in India and abroad must move parallel. They must be equal, with the exception of the cost of transport. A certain set of goods at 1s. 6d. will cost in India 100. If the ratio is altered to 1s. 4d., then the same goods will fetch in India, 112·5. If that is so, I should be very glad if you would show me why it should be necessary to export more goods to meet a foreign debt when the exchange is high than when it is low?—Well, I will put it this way to you, Sir. I get an order from a foreign merchant to buy this year 100 bales of cotton, with exchange at 1s. 4d. this year; I get a certain price from that foreign buyer, "buy a hundred bales of cotton for say £1,000." My order is from Liverpool. I get that order, "buy a hundred bales of cotton for £1,000, all charges included." Very well, I calculate and the exchange of the day is 1s. 4d. to-day. Then I find that at 1s. 4d. for that thousand pounds, I get Rs. 15,000. Therefore I tell my seller, "I will give you Rs. 150 for each bale of cotton: do you accept it?" He says, "yes." Now 12 months have passed, and you raise the exchange to 1s. 6d. and the same order is repeated to me, "buy a hundred bales of cotton at £100." I calculate exchange at 1s. 6d. I can only get Rs. 1,325 for it. I tell that seller of cotton, "last year I gave you Rs. 1,500 and you accepted it. This year I am sorry on account of the high rate of exchange I will pay you Rs. 1,325, will you accept it?" Then as I have more cotton that I can use myself, I am forced to accept that price of Rs. 1,325. Am I then a loser or not in taking Rs. 1,325 for that cotton owing to the higher exchange?

4961. I do not quite see where you are the loser. If it is true that prices adjust themselves, then what you have done really is, you have given the cultivator in the first case Rs. 150 per bale, that is right?—Yes.

4962. In the second case you have given him Rs. 135. But with Rs. 135 buying exactly the same amount of goods as the Rs. 150 before, I do not see where the damage arises? We start from the premise that prices adjust themselves; therefore the Rs. 135 which the cultivator gets will buy exactly the same amount of commodities as the Rs. 150? That is correct. Therefore I suppose you will agree that a high or low exchange, provided it is stable, cannot damage anybody within the country?—Nor can the foreign debt charge in terms of goods be any heavier in either case.

4963. That cannot affect the question, because you have to ship exactly the same amount of goods to meet that debt? I take it that is so?—I will not concur in that, so please do not take my answer as yes. I want to think it over.

4964. Would you care to reply now?—I will reply afterwards.

4965. (*Chairman.*) Mr. Dalal says he would rather not answer to-day because he wants to think over the matter?—Yes.*

4966. (*Sir Henry Strakosch.*) One other point is not clear to me. You were saying that the cost of changing the ratio to the Exchequer would be in the neighbourhood of 3 or 4 crores, and you said that you prefer higher taxation rather than screwing that amount out of the people by exchange?—Yes.

4967. Is it right, as I believe you have agreed with the Chairman, that the end effect of changing the ratio would be, on the basis of your assumption, that one section of the community would have to go with a lesser income, for the benefit of another section of the community? Would it not be true to say that if you raise that amount by taxation, it would mean nothing more than to raise from the whole body of the community a certain amount to favour a selected few, namely, the millowner and the exporter?—That is based on an assumption, Sir. I do not see why it should be taken from any one class of people; I say, distribute it over the whole class.

4968. Exactly, but the effect of that would be, would it not, that a selected class of the community would benefit by it, namely, the millowner, and the exporter, and that the other members of the community would to that extent bear a burden which benefits a selected class?—You mean the extra taxation? It depends on how you distribute that taxation, Sir. You may lay it on the millowner, if you think a lower exchange is going to benefit him, you may put a tax on him, you may ask him to pay more income-tax.

* Mr. Dalal's answer given later.—I will give my answer this way, then. If the price of a commodity in London is £10 and exchange is 1s. 4d., the price in India would be Rs. 150 (leaving aside freight and other charges). If the exchange is raised to 1s. 6d. an adjustment takes place and the price drops to Rs. 135. The adjustment is permanent and a permanent lower price to the extent of Rs. 15 is established, and whether prices move up or down in London, the permanent difference of Rs. 15 must remain. India must get Rs. 15 less for the £10 of produce, or sell a correspondingly greater amount of commodities.

4969. But then he is just as badly off as before?—He would willingly agree to that, than agree to this indirect taxation and indirect competition.

4970. With regard to the question of the secrecy of Government remittances: remittances abroad I take are not a thing which is confined to Government? We have to remit abroad money to pay for everything that the country needs?—Yes.

4971. It is true that the Government is a heavy buyer of sterling to meet its charges abroad, but the importer equally has to buy a very substantial amount of exchange?—Yes.

4972. Now I put to you a case; if a big firm of bullion brokers were to acquire a big amount of gold or silver and they wanted for that purpose to remit money abroad, would you advocate that this transaction also should be published? I can conceive of circumstances where a bullion broker might buy ten crores of gold in London which is a very substantial amount compared with the Government remittances. Would you advocate that his transaction also be made public property?—Do you want to put the transaction of a bullion broker and the Government of India remittances on the same level? The one depends upon socrecy for its success and the other not.

4973. They are both buyers of exchange?—What of that? But for different purposes.

4974. I understood you to say that the public at large that deals with foreign countries is damaged by the fact that the size of the transaction is not made public?—Indirectly; because the bankers do not know how they stand in relation to exchange. Therefore they cannot render that service to the trade of the country which they otherwise do.

4975. Should they not then know if a bullion broker were to buy ten crores of gold in London?—They may not know. The whole world would know when the ten crores of gold moved from London.

4976. So would you know when the Government publishes them at periods of certain intervals?—But those are too long periods.

4977. What would you say the period should be?—Every morning, the previous day's operations should be announced.

4978. And the bullion broker would not mind if his transaction became public?—There is no analogy between the bullion broker and the Government of India who control the financo of the country. The very life of finance in India depends on Government sales of councils or purchase of sterling. Without that everything is in the dark; the country cannot move. Why should the country be kept in the dark? There is no reason.

4979. What is the total import trade of India, if I may ask you?—I think about 250 crores.

4980. Let us take it at 300 crores of foreign remittances have to be bought to meet that. The Government remittances are but 30 or 40 crores. Don't you think that the remaining 260 crores are a huge item in the exchange market and that if one individual or one firm were to wish to appeal to the exchange market for a very substantial sum of remittance that would have exactly the same effect upon the market as a purchase by the Government?—You assume too large a figure. No transaction is in ten millions. I would be exceedingly surprised if a transaction in bullion is half a million, I mean in one transaction; and say a bullion broker wants to import half a million worth of gold; on the other hand an exporter wants to sell half a million of bills and the operation goes through the bank, buying and selling, but when there is a balance left and that can only be financed through these Government operations and by keeping those operations in the dark, the whole thing gets upset, particularly when exchange is fluctuating. It won't matter so much when the exchange is fixed.

4981. (*Sir Maneckji Dadabhoy.*) I just like to know with reference to your statement on page 5 about the obligation of Government. You state "The obligation to give gold should not be legally undertaken until a vast amount of gold is accumulated in the currency reserves, but Government should give gold as much as possible and convenieut in the transition period." What amount of gold would you recommend to be accumulated? Can you give some rough idea?—In this memorandum which the Government have prepared, it is 100 millions. I should think that until about 100 crores of gold is collected, I would not venture to give gold. About 100 crores, worth about 75 million pounds.

4982. And would there be any difficulty at the transition stage of collecting that amount of gold?—I do not think so; in ten years you can collect that. I think in ten years you can easily collect that. In one year, last year, we imported about 57 millions worth.

4983. There is no difficulty?—None whatever to my mind.

4984. And in fact you do not think that a large amount of gold will be required for actual circulation?—In the initial stages you will have to give gold coins. But I believe that the knowledge of the people in these currency matters is growing very fast and vast developments have taken place in the last ten years. They are taking gradually to the use of notes. Ten years ago during the cotton season, if you sat opposite the Currency Office here, all the day you would see nothing else but a string of carts loading silver rupees for taking up country. To-day you may sit there from morning to evening but not see one cart. That shows that they have been used to the notes in preference to the silver rupees and the same thing will eventually happen in the case of gold. At first they will want gold; but when their economic and currency knowledge increases, when they know that they can always get gold, they will not want it.

4985. In other words, the mere fact that they could easily get gold, that their note issue is convertible into gold, will prevent them from asking for gold?—Yes; eventually it will.

4986. (*Mr. W. E. Preston.*) Mr. Dalal. As there seems to be a possibility of some slight misunderstanding on the part of members with regard to the acquisition of the gold required for what I may call your purpose it would possibly clear the atmosphere if I were just to say to you that assuming that all the council bills available had been utilised; let me put down a figure, 40 million sterling for a year's requirements and when Government had announced that that 40 million sterling had been completed, and they were not selling any more councils or buying any more sterling from this side, it would simply mean the Exchange banks and others if they want further funds would have to ship gold from London to India?—And silver for sale to the bazar.

4987. And you would give out silver here against that?—No; gold and silver.

4988. But you would have no coin to give? In the beginning you would have to give local currency notes or silver; it could only be at somo later date when you have got a mint going on and you get sufficient gold to produce the coins and even then of what value would the coins be to us unless they were freely moved about in circulation and were not hoarded? Otherwise, your system has been defeated.—Let me catch your point. You are afraid that when gold is brought out it won't go into circulation?

4989. Supposing to-morrow Government were to say "we draw the line. No more councils available and we have big demands here for cotton receipts coming on." For any further currency which we may require we would have to ship out gold from London. You would have to give us currency notes or silver here against the gold we are tendering?—Yes.

4990. Taking a hypothetical figure of about 100 million gold to constitute your fund, you would go on each year building up amounts of gold which we send out until that 100 million was acquired?—Yes.

4991. And would you think, therefore, that, after the period of accumulation of gold, ten years hence, you might then begin to add up the pros and cons and see whether the time was not then ripe for introducing a gold standard in its entirety?—To undertake the full obligation you mean?

4992. Yes?—Yes, I would.

4993. I am looking at it from this point of view, that the utmost obtainable might be 10 million sterling each year?—I would take an average.

4994. Not more than 10 years. Would you agree to that?—It may be 15; it depends upon the season. You would get that gold in ten years.

4995. Supposing we get 15 millions each year for ten years. That will come to 150 millions; and beyond that 15 millions no further gold would be required under your scheme?—For the Government currency purpose; but the country will want more for its own purpose, i.e. for the arts, etc.

4996. The country will want more, yes, but now we are only dealing with currency?—Yes.

4997. (*Sir Norcot Warren.*) Regarding Government remittances, are you in favour of purchase of sterling in India or selling of council bills in London or a combination of both systems?—I think if the exchange is once fixed, the sale of council bills is the better system; not particularly in London; instead of selling council bills Government should make a public purchase of sterling in India.

4998. I want to know whether you are in favour of sale of council bills in London or purchase of sterling in India?—I am in favour of purchase of sterling in India.

4999. In preference to the council bills?—Yes; it must be public.

5000. By tender?—Yes.

5001. (*Chairman.*) There was a question I wanted to ask which slipped my memory. It is in relation to the striking statement which you make under the heading "questions 1 and 2," paragraph 4, where you say that foreign imports have increased as a result of the rise in exchange. When I refer to the figures in that connection I do not quite apprehend what you intend by that statement, because on looking at the official figures of imports, I see that the exchange began to rise, if I remember right, in July 1921, and if I look at the official figures of imports, I see the imports for 1920-21 were 335 crores and for 1924-25 they were 243 crores. If one allows, say, 15 per cent. for the increase in value, we still get 278. So that from the course of the figures it does not seem that that there has been any very great stimulation of imports?—Where is that, Sir? Which year do you mean, Sir?

5002. In Appendix II. The critical year is the year in which the course of exchange varied, July 1921. I was then looking at the course of the figures, at the same time making a rough and ready allowance for the rise in value. It was 266 crores in 1921-22 and 243 last year?—I have made a statement here.

5003. I was not sure what you intended?—Let me make it clear to you, Sir. The figure is practically the same; but the effect has been a great deal more in this way that we have imported an enormous quantity of gold in 1924-25, and a very large quantity in 1923-24. Taking into consideration the large quantities of bullion purchased by the people by which their purchasing power was reduced for other commodities, these imports are very heavy. Therefore, they gave a check to the manufacturing industries of the country. That is what I am driving at.

5004. It was not so much the actual increase in the imports of commodities?—No; but practically it becomes the same.

5005. As it were the purchasing power of the people was diverted to gold?—Yes; the remaining purchasing power was divided between these imports and the products of indigenous industries.

5006. There only being this difference, that relatively gold did not enter into competition with any of the internal industries of the country?—Yes it did; if people buy gold they won't buy cloth

The Chairman thanked the witness on behalf of the Commission and the witness withdrew.

(*Adjourned for lunch.*)

Sir VICTOR SASSOON, representing the Bombay Millowners' Association, called and examined.

5007. (*Chairman.*) Sir Victor Sassoon, you have come to assist the Commission on behalf of the Bombay Millowners' Association and you are accompanied by the Secretary of the Association?—I have got the Secretary and also another member of the Association who is more conversant with the technical side, Mr. Stones, who is also a member of the Committee.

5008. The Bombay Millowners' Association is an association of the owners of cotton mills?—The word "owners" is rather a misnomer. We are more the managing agents of mills. It dates from the time when most of the mills were proprietary, but I don't suppose there is a single agent now who owns the mill he manages.

5009. For the benefit of the members of the Commission, who may possibly not be familiar with the organisation of business in Bombay, will you tell us what the typical work of the managing agent is to the industry?—Shortly, the managing agent is a firm who takes the place of a whole time servant usually styled Managing Director at Home. The Managing Agent is not, however, a whole time servant but acts for a number of companies as a rule, besides carrying on his own business, generally that of a merchant. The practice dates from the time that suitable men were very much sought after, and has the additional convenience of at any rate one partner being on the spot to carry on the work while the other is on leave. But besides carrying out the executive functions of a managing director, a firm of managing agents is largely responsible for arranging any finance required by the concerns they manage and to do this have to pledge their own credit. This is probably their most valuable function to-day and the reason why they have not been superseded by whole time managing directors.

5010. We have the benefit of a memorandum* from Mr. Maloney, the Secretary of the Millowners' Association, which sets forth in some detail the proposals and recommendations of your Association, and I will proceed if I may to ask you some questions to elucidate the nature of your proposals and to ascertain the weight of emphasis which you place upon them?—If I may interrupt for a moment, Sir, what my Association have allowed me to say in coming before you is that we do not pretend to be experts in currency; we obviously view the matter from a rather domestic point of view, but at the same time certain members of the committee thought that they would like to amplify, if you notice, what we call suggestions; but really what we wish to emphasise is what affects us more closely, that is to say, the effect of an appreciated rupee to-day and the effect of a gold currency. That is what affects us more closely; the rest are merely suggestions, and I do not suppose I shall be able to give you opinions which would rank as weighty as those of the experts you have had before you.

5011. I should naturally suppose it would a misapprehension to conclude from what you have said that your proposals refer only to the interests of the Millowners' Association; I should rather suppose that your proposals are put forward on the ground of general public interest?—On the ground of general public interest certainly, Sir; but at the same time shall we say more from the business man's knowledge rather than from a currency expert's knowledge. I mean we have certain views which you may call commonsense views held by business people; but certainly my knowledge as to the details of some of these technical questions is by no means extensive, and I should not perhaps be in a position to reply as to

* Appendix No. 25.

certain causes and effects if it concerned the very highly technical part of currency questions.

5012. We are to look upon your proposals in the sense that you are only prepared on behalf of the Millowners' Association to deal with these matters in so far as they affect the practical interests with which you are acquainted?—And also, shall we say, a layman and not as an expert; it is chiefly that side I want to emphasise; I do not pretend to be an expert at all or to have expert knowledge.

5013. I think we shall probably all agree that knowledge which is based upon practical experience is the only knowledge to which very much attention should be paid in such matters. You say: "They further consider that the two main essentials for the permanent solution of the currency problems are:—The introduction of a true Gold Standard in India with the value of the rupee fixed at a rate which will correspond with countries where currency has returned to its normal value." You continue: "With the rupee exchange at the present rate 100 United States of America gold dollars are worth Rs. 272·4 as against Rs. 307·8 in January, 1914. From this it would seem that the present value of the rupee is far too high unless the Government of India are in a position to show that the United States of America has a depreciated currency." That leaves some little doubt in my mind, and the doubt is this: too high in relation to what?—In relation to the gold dollar.

5014. What standard are you referring to in the relation of the rupee to the dollar?—We are taking the standard which was in existence before the War, what you might call the par values which were in existence for a number of years in this country and for a large number of years in others, and we are comparing the position to-day as far as India is concerned with a country like the United States which is commonly supposed to be very prosperous and to have come out from the effects of the War better than most other countries of the world. It appears illogical that the United States should have a depreciated exchange as compared with India compared with the pre-War values.

5015. Of course, it is apparent that the present value of the rupee is higher in relation to the dollar than it was, but it seems to need greater clearness as to whether it is necessary to proceed from the obvious circumstance that it is higher to the further conclusion that it is too high. Do you mean that in relation to Indian prices the rupee is overvalued in the external value?—We were rather looking at it from the point of view of our external relationships in our competition in the world markets, the competition that India has to fight from an industrial point of view. We take the example of the United States, because, although we are not as advanced industrially as they are, we, in common with them, are large exporters of produce. Further, we note that the United States does not appear to be in favour of having an appreciated exchange, and have been helping the pound sterling to regain its par value, and to keep it. This was confirmed to me by my banker friends in New York on my visit there last summer.

5016. Is it then your opinion, or is it not, that the rupee is still overvalued as regards its external value in the sense that there has still got to be a substantial readjustment of internal prices in India in order to produce an equivalent of the internal and external value of the rupee?—As far as internal prices are concerned, there is no doubt that cereals and pulses, which are the products of the large bulk of the agricultural worker, are much below prices they should be at if you take into consideration the rise in cost of living and if you take into consideration the rise in wages and salaries that have taken place in towns and in industries in India. That is, talking generally, if we take the particular point of wages in industrial concerns like our own, we find ourselves in the position that the pre-war par was reached, I think, somewhere about last September. The present 1s. 6d. rate was only reached, I think, in March of this year. Our industries and the industries of this side of India—I am leaving out the Eastern side where they have got special conditions—have not been flourishing during the last 15 months, and we find ourselves in the position that, through the rise in the gold value of the rupee, our labour is being paid 12½ per cent. more from the world point of view than it was before, although you cannot tell a mill hand that his wages are 12½ per cent. more because he is only thinking in rupees. And this high exchange is also hitting us as regards all our fixed charges which we cannot get away from. It is not only hurting us seriously as regards our trying to export our finished article; it is also hurting us internally because it acts as an advantage to competitive imports as well; and, therefore, if we were merely to go back to the position we were in 15 months ago as regards charges we would have to reduce salaries and wages, which are the only things we could reduce, by something like 13 per cent.

5017. I do not quite follow that last figure?—If we are to be in the same position as we were 15 months ago, when the gold value of exchange was 1s. 4d., as regards competing with the world in India alone, we should have not only to reduce salaries and wages by 12 per cent., but by an extra half per cent., to make up for the increase in gold values that we have to pay on rates and taxes, insurance and similar items which we cannot control. It is always said these matters adjust themselves. It is very difficult in India to adjust wages, and I take it that even the Government must find it difficult, because I have not heard that there is any suggestion that the Government salaries and wages should be reduced by 12½ per cent. owing to the appreciation during the last 15 months.

5018. What has been the general tendency of wages in the cotton industry in Bombay over a considerable period, shall we say, for the last 25 years?—They have always been upward, of course; we have got a nominal 70 per cent. increase in wages since the war; actually, if you take the pre-war figure as 100, the wage would be 231, while the rise in all commodities (I am taking these figures from the Indian Trade Journal of the 12th November) would be 60 per cent. or figures of 160.

5019. You have given us some very helpful figures compared with the pre-war period. Your general reply would be that, for the preceding period, the figure would be upwards?—It would not be downwards.

5020. What has been the tendency of wages since the actual movement in the general level of world prices, since about the middle of 1921?—We have had no cuts at all; the wages have not altered; to-day they are getting the same wages as they were receiving, they still receive the peak; other countries have had cuts since the war, we have not.

5021. In view of those circumstances, that there was a general rise in wages which appears to have ceased in 1921, I want to ask your opinion upon a contention which might be advanced from another point of view, that is, that although the rise in exchange has not been off-set by any reduction in money wages, it has in fact been off-set by the prevention of the regular increase, and thus an adjustment has taken place, although the adjustment is masked by the general tendency of wages in Bombay to rise?—That, of course, is rather a difficult question to answer; we can obviously show you how the average cost has dropped from 179 to 160, I mean the average cost in all commodities, since September last year; I take that date because our exchange was then about 1s. 4d. gold.

5022. That is the general index number of prices of commodities?—Yes; but the great trouble is that there is a considerable amount of masking there—I mean it is very difficult to answer, because world prices obviously do affect our own prices here; you cannot get away from that, especially when you are dealing in world commodities, such as wheat and linseed and such like; but I do not think that, although, admittedly, they are bound to be affected, the one balances the other. In my mind, although it may have masked a possible rise——

5023. Let me put it to you in quite a crude way in order to make it clear that our minds are at one. Wages suddenly began rising; then exchange began to rise; at that point wages stopped rising, and that was, as a matter of fact, effected by the adjustment resulting from the rise in exchange making itself felt upon wages?—I did not follow that; that is quite easy. In other words, your point is that if it had not been for the rise in exchange wages would have risen since last September. That is much simpler. I can say "no," because (I am talking since September, 1924) there had been no rise in wages for some period before that.

5024. I am taking from July, 1921, which is the point at which exchange began to rise?—We are not complaining about any rise in exchange up to the 1s. 4d. gold which took place about September, 1924. I do not think, as far as our industries are concerned, that, even had exchange remained where it was, that there would have been a further rise in wages during the last year.

5025. That is an important relevant consideration which you have now advanced. What are the grounds for your opinion that there would have been no further rise in wages, even if exchange had not changed?—Because owing to certain world conditions the industry was not in the healthy position in which it had been when the extra wages were given. It is obvious that workers ask for an increase only when the industry prospers.

5026. Is that obviously the case always?—In India I think that you can take it that when labour sees an industry prosperous, as during the boom years, it is supported in its demand by public opinion; on the other hand, when the industry is not holding its own the question that confronts your labourer is not whether he can get a further rise, but whether he can keep what he has got, especially when wages in similar industries abroad have fallen and his has not, for it must be remembered that both Lancashire and America have made wage cuts from their top. I think that the psychological effect that other countries had made cuts and we had not would have prevented any serious demand for a wage increase during the period you mention.

5027. You would then attribute the cessation in the rise of wages rather to the psychological effect than to any change in the cost of living?—Yes; I am quite certain of one thing that the rise in the rates of wages of the millhands, being, as it was, 240, was much higher than the highest commodity rise; let us take the highest that I have got here on this sheet; in 1921 the average commodity value was 181; it was lower than 1920, when it was 204; in 1922 it was 180, and in 1923 it was 176; in 1924 it was 177. These are general index numbers. So there was nothing from the point of view of rise in cost of living to have justified a rise in wages, when they were getting 230.

5028. That must be the Calcutta general index number?—Yes.

5029. Do you think the Calcutta index number throws very much light on the cost of living? Should it not rather be in the form of a budget of a wage-earning household?—To be very frank, I always view all these cost of living figures with great suspicion.

5030. I quite appreciate the force of your reply; but, apart from that, does even a highly scientifically based and calculated index number of general commodity prices throw very much light upon the cost of living index?—It gives you the trend of prices, even if you do not take the actual average; when I look at it I rather look at cereals, sugar and the more obvious things that we know the labouring man takes.

5031. The point is this, that the rate, on the average, must be so very different for the budget of the working class household, where you have got the constituents composed mostly of lentils and so on, that you run the risk of getting a very misleading figure?—I quite agree, but as far as we are concerned here we do know from practical observation that the rise in wages of our mill hands is more than the rise in the cost of living. It is proved by the way they are spending their money. They are buying luxuries they could not afford before. I am even now taking a census in my mills of the number of men who are wearing imported cloth costing 30 per cent. more than what we sell them, because we always let them have our cloth at reduced prices; in the old days they could not afford to buy the imported kind. Then, again, the demand for money orders to the districts from which these men come has increased tremendously, and that demand is still keeping up. You may take it that they are much better off than they were in pre-war days.

5032. Your opinion is that there has been a steady and substantial increase in the real wages, and, in consequence, an increase in the standard of living?—No, Sir; the increase has not been in the standard of living; the increase has been in the purchase of luxuries, in drink; instead of drinking country liquor the workman now likes to drink a bottle of wine with a foreign name on the outside; some of them have been sending money to their homes; those people no doubt have obviously increased their standard of living when they return home; but there has been a good deal of ——

5033. You are referring more to the moral aspect of it?—I would call an increase in the standard of living, living in a better room, or having fewer people in the existing rooms, but they do not do that; they still live huddled up as they did; they will eat more, and drink more and enjoy themselves more now; but if you take some of their money away they will only have to do without their luxuries, for their overheads, such as rent, have not gone up.

5034. The increase in the rate of wages has resulted in an increase in expenditure on luxuries?—Expenditure which is not necessary.

5035. I wanted to follow out whether, as a consequence of that, you are recommending that it would be inadvisable to stabilise the rupee at a higher value than 1s. 4d. gold?—That is from the point of view of fluctuations.

5036. Let me generalise the question: I understand your general recommendation is that the rupee should be stabilised at 1s. 4d.?—We think that it would be a point which you can stabilise it at owing to the experience of the past; whereas we do not consider that it can be stabilised at 1s. 6d.

5037. Is the basis of your recommendation because it can be stabilised at 1s. 4d. and cannot be at 1s. 6d. or is the basis of your recommendation the advantages that would be conferred upon India or any part of the Indian community by the selection of the 1s. 4d. rate?—Our main point is that the 1s. 4d. rate is to the advantage of India as a whole and to the large majority of the inhabitants of India. Our second point is rather taking the point of view of the merchant who says: "Let us have a stable exchange; if you give us a stable exchange I do not mind what the rate is." The first point is the reason why we are really fighting for this 1s. 4d. But we say that, if you are talking to a merchant who does not mind whether the rate is 1s. 4d. or 1s. 6d. so long as he is able to buy the goods and he can trade (and I, too, am a merchant, and I am speaking from practical experience) but who does want a stable rate, you will get it with 1s. 4d. more easily than with 1s. 6d.

5038. Dealing with the first aspect, namely, the positive advantage that the 1s. 4d. rate might confer on the Indian community as a whole and on various sections of the Indian community, carrying out your original suggestion, it would be useful, I think, if I were to ask you as to the effect this would have on the particular interests with which your association is concerned. What would be the effect upon the business interests with which your association is particularly connected of the reduction of the rate to 1s. 4d.?—At the present moment, as you know, Sir, the excise has been removed, and therefore this would obviously appear to be a distinct advantage to the mill industry, not necessarily from the point of view that they are going to make more, but that they can sell at a lower price by its removal. I have worked

out the difference between the present 1s. 6d. rate and 1s. 4d. rate as a very little less than the excise. So to-day, with the excise removed, all we are getting is, I think, a ·03 per cent. advantage over what we would have had if the excise had been left on and we had our 1s. 4d. gold as we had last year. I am afraid I have not been clear?

5039. As I follow your reply, it is that whatever bad effect was produced by the rise to 1s. 6d. is substantially counteracted by the removal of the excise?—Although it is generally considered that we must have benefited by the removal of the excise, that is not the case; it is merely giving us back what was taken from us before by the rise in exchange.

5040. There is a minus to set against that plus?—And the position to-day is that from what we can see of trade generally, the mill-industry as a whole will not be able to work at a profit during the coming year, in spite of having got the excise removed.

5041. You are assuming in your reply (I don't say whether rightly or wrongly) that the reduction of the rate to 1s. 4d. would confer some benefit upon the cotton industry. What I wanted to ascertain was what benefit that would be and how it would act?—I think in the first place, it would mean a reduction of 12 per cent. in wages, which would not be made up by a rise in wages. I don't think, speaking generally, that if you went back to 1s. 4d. there would be any consequent rise in wages, certainly not in our industry and not for a large part of India. I think it would probably lead to higher prices for certain produce like cereals and pulses, and we, as mill-owners, would welcome that because, although the cost of living might be increased slightly in consequence, more money would be going to our purchasers who would have more to spend. The trouble which we find is that our customers, who are the poorest people, the agricultural people in India, have, in spite of five good monsoons, not been able to buy as much of our products as might be expected; and although, as I have admitted, these index numbers are often misloading, I think the fact that you have only got 135 as the figure for cereals, and 241 for cotton manufactures, can be taken as fair support of what I have been saying. We think that if the index numbers of cereals and pulses approach more nearly to the general average and more particularly nearer to the figure for cotton goods, the ryot would have more money to spend on our products.

5042. Let us follow that up a little. The mill-owner's position would be improved because, on the fall in exchange, he would get more rupees for his foreign currency for which he sells his exports?—Yes, it would help us in our exports.

5043. The importer, on the other hand, would have to pay more rupees for whatever he imports, in order to lay down the same foreign credit as he paid for these imports. That would result in a rise in the price of imported goods?—Which, Sir, are not, or a very infinitesimal portion of which is in our opinion bought by these poor classes with which we are dealing.

5044. Laying that point aside for a moment, let me ask to what extent does the cost of production, if at all, in your cotton mills depend upon imported goods?—The replacement of machinery—I am not taking the main machinery because that is already there—replacement of machinery and stores . . . . let me see, for yarn it is 1½ per cent., for cloth weaving it is 5·7 per cent.

5045. That makes a total of round about 7 per cent.?—No, the yarn is included in the other figure. If you take it on the finished cloth, it is 5·7.

5046. Your reply is that the proportion of the cost of production which is affected by the price of imports is round about 5 per cent.?—Between 5 and 6; say 6 per cent. to be on the safe side.

5047. Now, take the other great constituent in the cost of production, wages. You have expressed the opinion that the cost of living depends very much upon the cost of those foodstuffs produced and consumed in India?—These cereals.

5048. Yes. In your opinion would the rise in the price of imported foodstuffs have no reaction at all upon the internal prices in India of those articles?—Sugar, of course, is a separate commodity. Even then they have got their unrefined sugar, they could use that for the poor. But most of the imported foodstuffs are imported for the Europeans. I don't think they compete with your ryot at all or your mill hand. His rice, his cereals, there are no imports of these, or of anything that could compete with these.

5049. Let us take it from another point of view which may perhaps make clearer the series of contentions which, in order to apprehend your views, I am venturing to put for your opinion. Supposing the rate were to be fixed at 1s. 4d., by what methods as regards the currency of the country would the change be effected?—There my association have allowed me to suggest that we should not be dogmatic, as we are not currency experts, as to how it should be done. We only know that it has only risen from 1s. 4d. to 1s. 6d. exchange in the last fifteen months, and we are convinced that a return to the 1s. 4d. rate would not cause a national crisis or anything of that sort. As for the actual methods, as to how it should be done, whether quickly or spread over a period, our point of view is that it is for the expert to point out the best way.

5050. So that perhaps I ought to venture to lead you a little more. Would it be an answer, were it to be put to us, to say that just as a rise to 1s. 6d. has been brought about by a restriction of the currency and by various methods that have been explained to us, so a fall to 1s. 4d. would be brought about by an increase of the currency, and by a reversal of the methods previously employed to restrict the currency?—Well, Sir, if your point is how a fall should be effected, I think that two bad monsoons will certainly give you that fall without the necessity for inflating (if you want the word) currency. Our point is that it is only through the occurrence of five consecutive good monsoons that the 1s. 6d. gold rate has been got. That is a record, and the chances are that we will have a series of bad or only partially good monsoons, which would automatically bring your rupee down without any need of increasing the currency.

5051. Now to bring you to a point upon which the Commission would be glad to have your opinion, may I ask you to make an assumption that the 1s. 4d. rate is attained by a reversal of the methods by which we are told that the 1s. 6d. rate was attained, that is, by some letting out of currency?—May I also assume, Sir, that that currency is to be let out against gold delivered to the currency office, or is it to be merely a pure inflation with no backing to it?

5052. That is really not the question. If the transition within a reasonable time is to be attained to 1s. 4d., can it be attained otherwise than by an increase in the purchasing medium in proportion to the things to be purchased?—I think, Sir, that it is purely a question of whether you allow your gold to be imported or converted into currency. If the Government chose to say to-day, in practice we are making a 1s. 6d. gold imported point, that is how it is being worked, whatever the reason may be—if you chose to say that for the next three months we are going to make it 1s. 5¾d. and then afterwards 1s. 5d., and then gradually bring it down by stages—there may be a disadvantage. As I say, we are not experts from that point of view. What we know is that the moment it gets normally to 1s. 4d. we should get the 1s. 4d. rate fixed, but you are likely to get there within two years automatically.

5053. I will ask you a question about that, if I may, in a moment. I gather, then, it is your opinion that reversion to 1s. 4d. can be attained without any increase in the cost of living in the country?—I don't say that, Sir, but I say that any increase in the cost of living would not be anything like the 12½ per cent. difference between the two currencies. It would be a much smaller one.

5054. Supposing there is an increase of even that small amount in the cost of living, would it be possible to resist a demand for increase in wages?—From the mill hands' point of view, yes, because they have already got so big an increase that it would be infinitesimal, they would not feel it.

5055. Let me put to you a final point which might be put by a critic. In so far as there is any increase in the cost of living, and in view of the circumstance that you do not contemplate any rise in wages as a result of the change, what would you say to the suggestion that, under those circumstances and to that extent, the extent to which there was a rise in the cost of living, the benefit was being obtained by the cotton mill industry and the cotton industry at the expense of the interests of the wage earner in the industry?—That could be said. Of course, the answer would probably be, you have got so much more than any possible rise in cost of living. You have had no drop at all since the peak, which has not been the case in any other country. Of course, if the industry could stand higher wages, it would probably pay, but I do not think that the industry would be over-prosperous even with this. It is a question of letting it live. I am assuming now that the advantage the industry gets would merely enable it to make some sort of profit, to pay its depreciation charges and so on instead of as at present letting it run at a loss, and I am assuming it could be said that labour was losing to the extent of a small rise in the cost of living. But, on the other hand, it might pay labour to have a smaller real wage, to a very slight extent, rather than have the mills closing down, in which case they would have no wages at all.

5056. But, generally speaking, if we considered the results of this change over a substantial period of time, is it, or is it not, your opinion that, as a result of readjustments following upon the change of internal prices and internal wages, the benefit conferred upon the cotton industry might prove to be only a temporary one which would exhaust itself after those adjustments have taken place?—No, Sir. Since labour has been getting these high wages, one of its little luxuries has been an increase in the absenteeism. They have not been working as regularly as before, and there is no reason why a man should not take away just as good wages as he has to-day by merely being a little more regular. Since the hours of work have gone down, absenteeism has increased enormously; and one of their reasons is this. "If we have got the money, spend it." We maintain that labour has only got to work satisfactorily as it used to work before to be able to get the wages they are getting to-day without any increase in the cost of production.

5057. I am aware that it would be an irritating contention, but might not a critic contend that, as a matter of fact, this permanent benefit was being obtained at the expense of labour by robbing him of one of his favourite luxuries, the luxury of absenteeism?—When you are dealing with a manufacturing industry like the mill industry, I am sure that the mill hand in Lancashire and America would not welcome any cuts in his wages, but he has had to have them, and he has realised that when the industry is doing badly, he has got to bear his share of the burden. In this case, I quite agree if your cost of living is going up even by ·0001 per cent. and you are giving no rise in wages, it is perfectly true that the labourer is suffering to that extent; but I might also say that during the last year his wages have gone up 12½ per cent. I am perfectly sure his cost of living has not gone up, it has gone down instead, and we have not got any of that back, so he would really be going back to where he was a year ago, or fifteen months ago. We are really taking something which he did not expect that he was going to get.

5058. If we had a labour leader here arguing against your point of view, he might add this to the reply that "it appears to me that the permanent benefit which you expect to the cotton industry is to be obtained not really as a result of a fall in exchange but as a result of labour putting up with rather less wages and working harder"?—"Less wages" *or* "harder work," isn't it, Sir? If they work harder, they are going to get exactly what they had.

5059. Very well, "or"; I accept your correction. Would there be anything in that contention?—Only if a labour leader were going to assume that any advantage which came fortuitously was not to be taken away; I maintain that this rise in wages within the last fifteen months was not asked for by labour at all; they just got it. We are taking away something that they got by luck and never expected. Labour never expected fifteen months ago that they were going to get a rise in wages, or that the industry justified it. I do not think that even a labour leader would urge that. If he did, he might ask for 1s. 8d. exchange. One thing is certain, that either something of this sort would have to take place or they will still have to forego this 12½ per cent. and have that cut in wages; otherwise we cannot live. This year we have just got our figures, they are confidential, but I may give them to you—the industry has lost two crores of rupees; and no industry can keep on at that rate of loss.

5060. The point I wanted to ascertain was whether these fundamental difficulties in the situation would receive any permanent alleviation from the change in the rate, or whether the alleviation would only be temporary?—I think that it would be permanent, because, as I said, the rise they have got is unexpected.

5061. Turning to the other aspect of the recommendation in favour of the 1s. 4d. ratio, it is your opinion that a 1s. 6d. rate is more difficult to maintain than a 1s. 4d. rate? You say that "if the value of the rupee was fixed at 1s. 6d. gold, my Committee believe that in the event of two successive failures of the monsoon it would be found impossible to maintain its parity." If we assume any scientific system as a basis for the currency of the country which provides for the automatic contraction of the currency when there is a heavy demand for foreign currencies to cover foreign payments, why does your Committee think that there is anything more difficult in the maintenance of the rate at the higher stable figure than at the lower stable figure?—The same reasons, Sir, for which it would be more easy to keep it stable at 1s. 6d. than at two shillings.

5062. That is just the question. Would it?—It has been shown that it has not been possible to keep it at two shillings. It has been shown in the past that it has been possible to keep it at 1s. 4d. We have got our record of the past to show that you cannot keep it stable at 2s. but can keep it stable at 1s. 4d.

5063. Must you not try to distinguish between the difficulties of achieving a higher rate in comparison with that which prevails at a given moment, and the difficulty of maintaining that rate after there has been a period of adjustment during which prices and so on have accommodated themselves to the new rate —I am assuming as between two stable rates?—You are not assuming that prices have adjusted themselves to 1s. 6d. gold exchange?

5064. I am making here two assumptions for the purposes of a comparison. On the one hand I am assuming a 1s. 6d. gold ratio to which prices have adjusted themselves, and on the other hand a 1s. 4d. gold rate to which prices have adjusted themselves, and I want to ascertain why it is easier to maintain the lower rate than the higher rate?—I think, Sir, as the point is to maintain the rate when the tendency is for it to drop, it is obviously easier to maintain a lower rate than a higher rate.

5065. It is not perfectly obvious to me why?—But it would appear, Sir, in practice—I am not an expert—in practice we do know that 1s. 4d. has been maintained, and we are maintaining that if you have 1s. 6d. gold since last March, and if prices could adapt themselves so quickly to 1s. 6d. exchange—it has been below 1s. 6d. and only reached 1s. 4d. gold last September—a 1s. 4d. rate cannot be any great hardship, and we cannot see why there should be any reason to choose 1s. 6d., which is more or less a new six-monthly rate.

5066. You refer to the failure to maintain the two-shilling rate. Should we not reflect that, at the time the effort was made to maintain the two-shilling rate, there was no provision for the automatic contraction of currency, and would it not be a justifiable opinion that the reason why there was a failure to maintain the two-shilling rate was in fact because currency was not automatically contracted during the sale of reverse Council Bills? On the contrary, there was no contraction of currency, and does not that suggest that if you have got a system which provides for the automatic contraction of currency, once prices have adjusted themselves to one rate it is as easy to maintain the one as the other?—Now, Sir, you are asking me a hypothetical question and I am not technical enough to know.

5067. The practical part of the question was whether the failure to maintain the two-shilling rate was not really due to the failure to contract the currency?—We do know that as merchants we consider that it is not going to be beneficial to the country to contract the currency more than is absolutely necessary, and our point rather is, why choose the 1s. 6d. gold? What is there magical about the 1s. 6d. gold. And we say, why choose the 1s. 6d. gold? It has not been 1s. 6d. gold at any period that we know of. The two-shilling rate had one advantage, that it has existed in the dim past, but it never has been 1s. 6d. What is the advantage?

5068. I should put the contention which has to be met in this way, that there is nothing magical about 1s. 6d., just as in the same way as there is nothing magical about 1s. 4d.; that the only big characteristic about 1s. 6d. is that it is the existing rate to which prices have substantially adjusted themselves, and that any variations from that rate would involve disturbances. Therefore the argument in favour of the 1s. 6d. rate which is put before us is not that it has any positive advantages, but that it has the negative advantage of avoiding any disturbance?—May I say that if you had been called here a little over a year ago, when the 1s. 4d. rate was in force, then it would have been said that as it was the rate at the time it was a good rate.

5069. These contentions to which I have referred apply with equal force to the 1s. 4d. rate, with the single reservation that the 1s. 4d. rate had prevailed long enough to allow for substantial adjustment of prices?—I maintain that the 1s. 4d. rate existed a great deal longer than 1s. 6d. rate has existed. I think that any adjustments that would have taken place with 1s. 6d. rate must have taken place since last March, which is a very short time, and I think that considering that you have 1s. 4d. so long, that it has really been in existence since the war, and the 1s. 6d. in our view has only been made possible without artificial support because of your five good monsoons, which is a record, it is advisable to take a rate which is normal and suitable to the fineness of the gold sovereign. It has been in existence for a long time, the rate at which this country laid down a good deal of machinery. The bulk has been laid down at 1s. 4d.; 1s. 6d. is an entirely new rate. It might be that some machinery has been laid down at over 2s., but I don't think much, and the bulk of it has certainly been laid at 1s. 4d.

5070. Of course, the advocates of this contention to which I have referred would, I imagine, say that the question is not whether once upon a time prices were adjusted to some other rate, but whether they are now adjusted to the present rate, and I rather gather that your replies are based upon the fact that prices are not now adjusted to the 1s. 6d. rate?—I do not say they are not; but I do say that if they are adjusted, the adjustment has taken place, between March and now. If you went back to 1s. 4d., they would readjust themselves with equal simplicity and without any more trouble.

5071. That makes it necessary for us to consider what that equal simplicity was. Your contention, as I understand, would be that the adjustment to 1s. 6d. could only be attained at the cost of very great disturbance to the various interests in the country?—I maintain that the Government is going to lose a great deal in taxation and that a large protective measure will have to be probably passed, protective measures for certain industries. I have got one little point which may help you. The Tata's steel as a protection of something like Rs. 12 a ton. I am told that the difference in exchange between 1s. 4d. and 1s. 6d. works out at Rs. 20 a ton. So the Government will cause a great deal of trouble to themselves by having this new 1s. 6d. rate, whereas if they went back to 1s. 4d. they will probably find that a number of industries which now want protection will not need it, or they can justifiably refuse it. That is a point in favour of going back to the last year's rate.

5072. If I may pass from that to the recommendations of your Association as regards the basis of the currency system, do you prefer the English sovereign or an Indian coin for legal tender?—As far as my association is concerned, I think they would like an English sovereign to be a legal tender; but I think they would probably also like an Indian coin of the same value.

5073. You would see no inconvenience in having two coins circulating?—I do not think that there will be any more inconvenience than an English sovereign and an Australian sovereign circulating.

5074. Does the Australian sovereign circulate in India?—No, but in Australia they take English sovereigns.

5075. Assuming thero is no difficulty in getting the English sovereign into circulation by suitable arrangements, I want to know whether you have any objection to the simultaneous circulation of an English sovereign and an Indian mohur? I rather thought it was your opinion that you would have both?—I think they rely on English sovereigns to circulate. I do not think that my committee looked at it from this point of view. I do not think my committee has any particular view one way or the other.

5076. Then you recommend that gold certificates should be issued on tho basis of Rs. 15 to the sovereign against gold held in reserve in India. Anybody who brings gold will get gold?—In that connection I may say that my own personal view is not quite that of my committee. I am not so much in favour of it, I do not consider it so essential that there should be gold currency as long as they have got the note, which is fully covered by gold. But taking it from the point of view of my committee, they consider that for a few years all tho gold tendered should be taken and not necessarily gold in sovereigns, but notes against this gold should be issued. They think that in that time you would get a ratio of tho metal held to the total amount of notes in circulation and the silver rupees in circulation, which would compare very favourably with the Bank of England at the present time.

5077. The accumulation of sufficient gold, to meet the obligation of converting outstanding rupees into gold, would no doubt involve the accumulation of a very large amount of gold in the reserves?—The extra gold for present rupees?

5078. Yes. If you are contemplating undertaking the liability to convert rupees into gold at some future time, that would require the accumulation of large gold reserves?—On the same parity as in England.

5079. I do not follow?—You will have to have reserve of metal to the same percentage of the note issue.

5080. You contemplate only a percentage, approximately equal to that of any currency system?—I think we ought probably to have more. I think even to-day they have got more. I worked it out, I may be wrong; I looked into the "Economist" just now, and I find that the Bank of England has a 35 per cent. margin, whereas India to-day, on the assumption that your silver rupees are worth 8 annas only in bullion, has a 58 per cent. margin.

5081. That may be so. What I want to know is what your ultimate idea is. Is it your ultimate idea that the rupee should cease to be legal tender and should be replaced by the sovereign, by the gold coin?—I think that eventually, and here my committee realise that it is very difficult for us to say when it should be, but it should be the ultimate aim of Government to limit the number of rupees which should be legal tender.

5082. Can that be done unless you have as a preliminary measure undertaken to convert outstanding rupees into gold, rupees either in circulation or kept in hoards or other forms as stores of value? Otherwise they might complain that the limitation of legal tender had seriously affected the value of their hoards, and that they had not been given the opportunity of substituting for them some more satisfactory medium?—As long as the silver content of the rupee is not worth less than what is now, they would not be worse off.

5083. Supposing I hold 1,00,000 rupees in my hoard and the Government suddenly comes along with a declaration that these are no longer legal tender?—More than a certain number?

5084. More than, say, 50 or 100 or any number. Will that not seriously affect the value of my stores of value, because I cannot use them any longer?—You can go on changing the fifties. You can change for notes slowly.

5085. I am assuming that if you are holding a lakh of rupees you may not think that you will be feeling secure?—Yes; though they know that the rupee is a token coin, they feel happier with the silver than with a note. Only it is a question of time.

5086. Would you not admit that there would be a necessity for an intermediary period during which the rupees outstanding might be changed into gold?—No; if you do not make any more rupees, the increased requirements of the country for single rupee currency would probably take care of that, and you must remember that if all the new currencies are backed by gold your percentage of gold to your total would be even higher. To-day it is 33 per cent., if you merely take the gold sterling reserve. I gave 58 including half the value of rupees, but if we take sterling and gold it works out to-day at 33 per cent., which is only 2 per cent. below England.

5087. Supposing we have about 150 crores of rupees in active circulation?—I have got 200 down.

5088. Supposing we have the same amount, or perhaps a little less, of rupees held up in some form or other, could you estimate at all how long it would take for the normal increase in the requirements of currency of the rupee circulation to absorb those hoards into circulation?—The difference between good and bad monsoons which bring out rupees would make adjustment easier. It would mean that a large number of those rupees after bad monsoons would come back into the coffers of the Government, who would refrain from re-issuing them.

5089. But at the same time you remember we are meeting the needs of the country for a normal increase of circulation by the import of gold and the issue of gold certificates against it?—Let us take a bad monsoon when your rupees come from circulation into your coffers. Then it is for the Government to decide whether they should re-issue those. They could gradually melt those down and sell it as bullion, or use it in other ways. Every year you will find a very great shortage in the change for your rupees. The demand for small coin is increasing and the silver rupees that are withdrawn might be melted and used for that.

5090. *Chairman*: You further recommend that the sale of Council Bills should be restricted to the actual needs of the Secretary of State for the financial year in which the sales are made; that the whole of the remittance operations of the Government of India should be entrusted to the Imperial Bank; that the control of the note issue should be handed over to the Imperial Bank with definite regulations regarding its expansion and contraction; and that I think completes the positive recommendations contained in your memorandum as regards possible improvements.

5091. *Sir Alexander Murray*: You referred a moment ago in reply to a question of the Chairman, Sir Victor Sassoon, to the point that Government should have intervened at 1s. 4d. instead of at 1s. 6d., to fix exchange at 1s. 4d. instead of at 1s. 6d.?—I think I suggested that on the argument that had been put forward if this Committee had been sitting a year ago, the 1s. 4d. rate would have been upheld. As a matter of fact my own feeling is that the mere fact that the Committee is sitting to-day or then is not to my mind sufficient reason to advocate either a 1s. 4d. or a 1s. 6d. rate.

5092. But the fact is that Government did actually intervene on a 1s. 4d. basis, isn't that so?—Yes, it did for a period and then changed.

5093. But they actually intervened on the basis of 1s. 4d. gold?—And then if I remember rightly, they moved up to 1s. 6d.

5094. You suggest that we would be better off on a gold standard? Isn't it true that gold prices in India would fluctuate with gold prices in other parts of the world?—They would be influenced by world prices. But where you have got a country which exports foodstuffs you do not get the fluctuations as absolutely as in a country like England which imports its foodstuffs and which would feel the influence to the full extent. In a country which produces its own foodstuffs a good deal depends upon the harvest.

5095. Speaking generally one of the main advantages of going on to the gold standard is that prices will fluctuate uniformly all over the world on the basis of the gold standard?—I do not think that that is so. In certain cases they would; in the imports they would; but in your foodstuffs they would not necessarily, that depends on your home harvest; just as sometimes you might get your prices locally, even under the gold standard, above the gold prices of the world.

5096. Do you remember that a year ago America's price index number was actually 149 whereas the index figure for India was 179, Calcutta 181, Bombay an average of 180; that is to say, gold prices in India a year ago were actually 31 points higher than American prices?—The danger of the index figures, which the Chairman has already pointed out, is more emphasised when you are dealing with a country like the United States and comparing it with a country like India. The index figures are not so useful in comparing one country with another as in showing the fluctuations inside the country and even then as the Chairman says, it is dangerous to rely on them I do not agree that as a comparison they have any value at all between conditions so wide apart as those which exist in the United States and in India. I mean the standard of living in the two countries is so different that I do not think you could compare them.

5097. It is rather an extraordinary coincidence that now in 1925 the price index numbers in all three countries, Great Britain, the United States and India, are more or less in line with one another, namely, 157?—I shall be interested if that is the case to know exactly how the prices of your cereals and pulses compare with those of those other countries.

5098. The cereals and pulses are included in your average prices?—Yes, but I should like to have those taken out here. Cereals and pulses affect something like 80 per cent. of the agricultural population.

5099. You cannot take individual things; individual prices must fluctuate even under the best managed system?—But if 80 per cent. of your population has to depend on cereals and pulses, I think those should be taken into account.

5100. You are a representative of the Bombay Millowners' Association?—But as the Chairman put it at the beginning, I am also here to make suggestions for the benefit of the country and not merely from our point of view.

5101. From the millowners' point of view am I right in saying that the wages in Indian mills have gone up 130 per cent. If 100 is the pre-war figure it is 231 now?—Quite true; they have gone up from 100 to 231.

5102. But the cost of living has never been above 190?—That is right.

5103. And your last wage increase was given in 1921 when the cost of living level was actually only about 177 according to the figures I have here?—That is where the discrepancy comes in. There are two forms of raising wages. One is a percentage which is an increase over all rates, that is to say, if your rate is 100 and you give a 70 per cent. increase for cost of living he gets 170; but the mill industry as well as giving that 70 per cent. over the 100 raised the basis, raised the 100, and the net result is we have 231, if you take wages to-day compared with 1914.

5104. And the cost of living to-day is 151 as against 100?—Yes.

5105. And you think you are justified in not putting pressure on your workers to reduce the cost of living as they have done in other countries. For instance when you gave the last increase of wages in 1921 the index figure in Bombay for the cost of living was 177. In the United Kingdom it was 219. In the United States it was 217. Well, since then the United Kingdom and the United States of America have each dropped their index number by 40 points. You have only taken yours down about 20 points?—Well, the cost of living is not the same in two different countries. I think a good deal depends upon the percentage of necessities against the total amount of the cost of living in the two countries.

5106. Quite true, but I take it the cost of living is more or less on the same lines in those countries. What I mean is that other countries have reduced their cost of working expenses more in keeping with the reduced cost of living?—Other countries have certainly reduced wages but one of the great arguments of labour to us when we have given them these figures, is that although they agree that they have had a much bigger rise in wages than there has been in the cost of living, they maintain that the standard of living was so low before the War that it should be raised for the industry, and do not propose to go back to the state they were in before the War.

5107. Not entirely?—Not at all. If you ask Mr. Joshi he maintains it should be increased to-day. As you know, where an industry is making money, it does not mind sharing some of it with the workers, but not otherwise.

5108. Yes, but you have not been making money for the last few months?—Well, we tried to reduce the cost of living.

5109. Not having got that, you got the excise duty removed?—To be quite frank, having the excise duty reduced so balances the wages and the exchange that we are really no better off than we were before; but as a pledge has been given we have to restore the cuts. As a business man I can say it is not justified.

5110. And the Millowners' Association now suggests that the rate of exchange should be reduced from 1s. 6d. to 1s. 4d. in order that the $12\frac{1}{2}$ per cent. cut you would like to have made but could not might be covered in that way?—Not entirely or merely in our own interests. It is going to benefit the 80 per cent. of agricultural labourers who are dependent on the cereals and pulses and in that way it will benefit the whole country. We are not asking for it against the country but with the country.

5111. *Sir Maneckji Dadabhoy*: Sir Victor, am I right in inferring from your discussion that the ratio of 1s. 6d. has not continued sufficiently long to give us any idea that it has settled down at that rate and that we could revert conveniently to the former ratio of 1s. 4d.?—I take the view that if it only took from March to now to get that rate and it was done so simply and so easily and wages have not to my knowledge dropped during that period to make up for the exchange rise, if you returned to the 1s. 4d. there would be no necessity for wages to rise because wages did not drop in that period.

5112. There would not be any appreciable economic disturbance?—I say we did not have a drop in wages, so there need be no rise in wages; the two balance each other.

5113. And people during the last 25 years have got accustomed to the ratio of 1s. 4d. in all their dealings and transactions, and to them that ratio would be more preferable than the ratio of 1s. 6d.?—Certainly.

5114. You have stated in answer to the Chairman that if we went back to 1s. 4d. there would be no rise in wages in your districts. Do you fear any serious disturbance in the internal economy of the country in rural areas?—I think there would probably be some rise in the price of cereals and pulses. I think I said to the Chairman that I thought that prices would probably rise to some extent but to a very small extent compared to the $12\frac{1}{2}$ per cent.

5115. Can you give us some idea of that rise as compared with the $12\frac{1}{2}$ per cent. Have you worked out the figures?—No, but I am just looking at the difference between September, 1924, for cereals and October; there has been a drop of 7 points there, but of course the big trouble admittedly in this is that articles like cereals are affected by world prices to a certain extent, and that this drop of 7 may not be due entirely to the exchange going up to 1s. 6d.; it is bound to be affected by world conditions as well. That is the danger of taking these figures. I do not feel somehow that in the short period between March and now we could be feeling the drop; we ought just to be beginning to feel the drop. There is always some delay. I do think that any drop there might have been during that period due to exchange would only just be beginning now to make itself felt. So if you turn to the economic side of the matter, the people would not have been feeling the effect of the drop till very lately.

5116. And would you do it immediately or would you require some period?—My own personal feeling is that if it is done immediately, you would have no trouble at all because the effect of 1s. 6d. is only just beginning; the quicker you are, the less the effect will be and the less you will have to undo.

5117. Regarding a gold coin your Association expresses its preference for the sovereign?—A sovereign or else an Indian coin of the same value.

5118. From the point of view of the Empire, would it not be more advisable to have one gold coin all over the Empire like the sovereign?—You mean in contradistinction to having an Indian sovereign?

5119. I mean if you are going to have a gold currency would not that be desirable?—If everybody else has it. But supposing South Africa, and the Dominions; Australia has its own golden sovereign I know. I have seen them and handled them; if they want their own sovereign, there is no reason why we should not do the same as they do, but I see no reason why we should have only the English sovereigns.

5120. And would you have gold coins of smaller denomination?—As I say, my own personal opinion is not quite the same as my committee's. My committee have not only meant the sovereign. Feeling as I do that it would be better not to encourage hoarding of gold, I should personally only have the gold sovereign, so that if they want to hoard they will only hoard the sovereign and not smaller coins. That is my personal view.

5121. (*Sir Purshotamdas Thakurdas.*) Regarding wages you said you had made no cut since 1921. Was not there something like a bonus which you paid to the millhands which had been taken off?—I was talking of a cut in wages which did not include bonuses.

5122. Do you include the bonus in the figure you gave, 231?—No: they have had bonuses on top of that 231.

5123. When did you discontinue the bonus?—Two years ago.

5124. Therefore since 1921 you have actually reduced something from the return to labour, which it had before?—That is true, but it has not been included in the increase over 1914.

5125. Any way you have made a cut or a decrease in payment to labour?—Yes.

5126. If you add it to the 231, what would that come to?—It was one month's wages per annum; but only some of them made the full amount, since most of them worked only for certain periods.

5127. What was the average?—It was about 5 per cent.

5128. When did you begin to give the bonus?—1919.

5129. And when did you discontinue it?—1924 (i.e., no bonus was paid in 1924).

5130. Did the labourers go on strike when you cut off the bonus?—Yes.

5131. How long did they remain on strike?—Six weeks.

5132. And then they reconciled themselves to it. They came back to work without the bonus?—Yes.

5133. Just one more question: it can be said by some critic that you are seeking the 1s. 4d. rate in order to benefit the industry at the sacrifice of the labourer. Would this be a correct representation of your point of view? You have said in your written statement that if 1s. 6d. was to continue it is likely that you may have to insist on a cut in wages, and that might entail a long strike and a good deal of trouble between labour and their employers?—As I said in reply to the Chairman, 1s. 4d. exchange would merely make a cut of an extra amount which the labourer got without knowing it in the last fifteen months; if we do not have it, and conditions do not alter, I think we will have to make a cut which would entail another strike.

5134. Which means that 1s. 4d. would enable the employers to avoid that cut which would otherwise have to be made?—Exactly.

5135. (*Sir Purshotamdas Thakurdas.*) If the scheme of gold standard was likely to cost the country a fair amount, do you think that in the interests of the tax-payer you would disapprove of the introduction of the gold standard owing to that cost?

5136. (*Chairman.*) Perhaps it would be more convenient to the witness to answer if you put a figure to him.

5137. (*Sir Purshotamdas Thakurdas.*) Say a crore or so per year?—I should think that the advantages to the government from the existing taxation under 1s. 4d. would more than make up anything like a crore a year; they would get a bigger return from their present rate of taxation by certainly more than a crore, than they would get by 1s. 6d.

5138. I was thinking more of the cost the gold standard and currency would entail on the tax-payer: if it entails an additional cost of a crore of rupees on the tax-payer, would you have a gold standard in preference to a gold exchange standard at that additional expense, or do you think it would be too much to pay?—I do not think that it would be necessary, because I think that the gain to the State by going back to the 1s. 4d. rate would more than compensate for the one crore.

5139. (*Chairman.*) Just to make it clear, I think what Sir Purshotamdas refers to is the cost of introducing a gold currency, while you are referring to the cost of returning to 1s. 4d.?—I personally would prefer to have a gold standard; I feel sure my committee would prefer to pay a crore and have a gold currency.

5140. (*Chairman.*) The Commission is very much obliged to you and your colleagues for your very full assistance this afternoon.

(*The witness withdrew.*)

FIFTEENTH DAY.

Monday, December 14th, 1925.

PRESENT.

THE RIGHT HON. EDWARD HILTON YOUNG, P.C., D.S.O., D.S.C., M.P. (*Chairman*).

Sir RAJENDRANATH MOOKERJEE, K.C.I.E., K.C.V.O.
Sir NORCOT HASTINGS YEELES WARREN, K.C.I.E.
Sir REGINALD MANT, K.C.I.E., C.S.I.
Sir MANECKJI BYRAMJI DADABHOY, K.C.I.E.
Sir HENRY STRAKOSCH, K.B.E.
Sir ALEXANDER ROBERTSON MURRAY, C.B.E.

Sir PURSHOTAMDAS THAKURDAS, C.I.E., M. B. E., M.L.A.
Professor JAHANGIR COOVERJEE COYAJEE.
Mr. WILLIAM EDWARD PRESTON.

Mr. G. H. BAXTER (*Joint Secretary*).

Dr. BALKRISHNA, called and examined.

5141. (*Chairman.*) Dr. Balkrishna, you are a Master of Arts and a Doctor of Philosophy?—Yes, Sir.

5142. And Principal of the Rajaram College, Kolhapur?—Yes, Sir.

5143. You are kind enough to come to assist us to-day with your evidence, and in particular you have given us the advantage of a very full memorandum,* in which you set out your recommendations and support it by your reasons, which enables us to apprehend the nature of your views. I should like to ask you a few questions to understand precisely how your scheme in your opinion would work, and to elucidate any point that requires elucidation. I understand your proposals are that, while a gold exchange standard should be retained for a year or two, until 1928 in fact, the ultimate ideal should be what you describe as a gold standard, that is, a standard with a gold currency?—Yes.

5144. In the first paragraph of your recommendations you say:—"The most effective measure to secure both stability in internal prices and foreign exchange is to introduce gold currency in the country, as the Gold Standard is comparatively the most stable standard." Could you amplify that a little by giving us your reasons why it is that a gold currency in the country achieves a greater stability in the standard?—Well, going through the last fifty years, that is, from 1870, I should say, or 1874, we find the countries which were having a gold standard

* Appendix No. 26.

had of course got fluctuating prices to some extent, just as in England, for instance, prices were fluctuating, but from 1900 practically we find, up to the outbreak of war, prices had been rather stable. There had not been much change. When we come to the war period, of course the conditions become abnormal, and therefore we cannot base our conclusions for a gold standard or any other standard because prices were altogether divorced from the gold standard, and they were based merely upon the inconvertible paper money. Therefore, our conclusions can be based only up to the war period, that is, 1914. From 1870 roughly, of course up to 1914 we find that the countries which were having this standard show no great fluctuations in prices.

5145. The countries which were having which standard?—The gold standard with a gold currency. England and Germany, France and the United States. I do not say that these were not having fluctuations, or a rise and fall in the prices, but not so much. And the world prices moreover are linked together, and therefore there is always a stability for time as well as for space. And thus, as I have said, gold finds its own level. Naturally, the prices will be made stable. They will not fluctuate so much in various countries, and if they don't, that is within the confines of the country also, there will not be much variation in prices. We have to see the effect of the gold standard over time as well as over space, and I believe that statistics also go to prove that there has been such stability both in time and in space.

5146. By a gold standard you are referring to a standard, the principal feature of which is a gold currency, and, as I understand you base your opinion in this paragraph upon your observations of the conditions in those countries to which you refer before the war—England, Germany, France and the United States?—Yes.

5147. Can you tell us what proportion of the active circulation of those countries was in gold?—Well, in England we might say it was merely one per cent., one or two per cent., not more than that, of the whole money instruments, that is credit instruments included, note circulation and gold coin. All these put together, if we say the ratio between actual gold circulating in the country and credit instruments combined, of course functioning as money, I will put it between one and two per cent. only. But it is not a question of the proportion or ratio between the actual gold circulating in the country and the credit instruments which are functioning as money, but the real question is whether there is a convertibility—a free, automatic convertibility between gold and all those instruments which do the function of money. Drafts, cheques, notes, these things when they are freely, automatically convertible into gold, then there is no question whether the circulation of gold actually is large or small. It is the gold basis, and the belief that they can be converted at any time into gold that places them on the same level as gold itself.

5148. We arrive then at the first elaboration of your paragraph, that one must not regard the actual amount of gold in circulation as that which gives stability but the ready convertibility of the actual medium of circulation into gold?—Yes. And along with this convertibility there is the second point also which we should say is the free flow of gold, that is export and import also. People know that whenever they want gold they can export it or they can import it. Free and automatic gold standard or full gold standard means free convertibility as well as a free flow of money.

5149. When you refer to convertibility, do you mean convertibility for internal payments or convertibility for international payments, or do you perhaps mean both?—Both. Therefore, I say free flow of money from and to a country. Therefore, both.

5150. What do you think is the relative importance of these two aspects of convertibility in securing stability?—Well, I think it differs in various countries. It all depends upon the use of gold which people are habituated to and at the same time upon the idea of security which the people have got regarding their governments and the banks. Therefore, I don't think there can be any cut and dried figure given here as to the relative importance of convertibility of these two items. In India, for instance, we find that there is a great deal of apprehension that the Government may not "convert rupees and notes into gold." And similarly there is not much use of gold also. The people are not habituated to it, naturally we require a great deal of circulation here. There will be a greater circulation of gold here than in England where the people are habituated to these things and the people have got an idea about the full security of the Government as well as of the banks.

5151. You now make an illuminating reference to the question of confidence. Could you tell us whether, in your opinion, the convertibility of the internal currency into gold, apart from the question of confidence, has any effect upon the stability of prices. I am differentiating now between internal and external convertibility, and I am asking whether, in your opinion, the fact that the token currency is convertible into gold for internal purposes has any effect upon the stability of prices, apart from the question of confidence?—Yes. If the token money which is now, for instance, the rupee, is inconvertible, then it means that the agency which is issuing that token money has got full control, and instead of automatic agencies we have got controlled agencies, that is, a managed currency, and all the evils of a managed currency will be there. It is only according to the dictum or the discretion of the Government to issue, to expand, the currency, as well as to contract the currency, and naturally the prices will depend more or less upon their discretion and not upon the automatic operation.

5152. I quite follow that. Leaving aside for one moment the question of the possibility of inflation, you would agree, I imagine, that, apart from that, stability of prices is secured by making your internal currency convertible at a steady rate into the medium of international payment?—No, I beg to differ.

5153. I am reserving the question of confidence and of inflation?—Well it is not a question of convertibility into an international medium—the convertibility of the money that is circulating in this country for instance into an international medium, because prices are not I believe controlled or influenced by only the international medium. Prices in India have been going on, say, in one course, while prices in England might be going in another course. We cannot say that prices are controlled altogether by any international medium. There is no such thing. In that case convertibility into an international medium does not mean much. As I have shown, our internal trade is vastly more important, and in each country of course it is much more important than the foreign trade; and, moreover, if India has got the rupee, as it has up to this time, inconvertible, the prices are altogether divorced from international prices. I should not use the word "altogether," but they are divorced.

5154. You would not agree that if the external convertibility of your token currency for external payments is assured, the effect of internal convertibility upon prices is not a matter that can directly arise?—We shall first have to ask ourselves what is the standard of value, gold or the rupee.

5155. Of course prices can be upset by the currency authorities by increasing the amount of internal currency in relation to the business of the country. Can you assist the Commission by explaining how and why it is more difficult for the currency authorities to do that with what you describe as the gold standard than it is with what you describe as the gold exchange standard. What are the additional safeguards?—Under the gold exchange standard for the present, are we to postulate that gold will not be given for internal purposes, gold in exchange for rupees and rupee notes?

5156. Yes; for an exchange standard you should postulate that gold is given only for export, either in the form of foreign exchange or in the form of gold metal?—Well in that case there is no automatic flow of gold either into or from the country, and India, so to speak, is separated from the rest of the world in the quantity of its money.

5157. Supposing the currency authority undertakes to buy and sell gold for export at the gold point, can it be said then that there is no automatic export of gold?—There will be to a certain extent. But the question is whether the rate at which they are selling this gold is a controlled rate or whether it is the natural rate which is in the market at that time prevailing. If it is a pegged rate, naturally there will be a difference.

5158. It is a fixed rate, fixed if you like by statute?—But take the 2 shilling rate at that time when it was so fixed and the market rate which was quite different. In that case we know what has happened. The market rate may be 1s. 10d., and the statutory rate may be 1s. 4d.: how are the two to be accommodated?

5159. The ordinary working of a gold exchange standard is that it is based upon reserves adequate to enable the currency authority to control the exchange market, within foreseeable fluctuations, in a manner that will enable it to keep the rates within the gold point. If the market rate differs from the adopted rate, if the market rate actually moves outside the gold point, the reserves are exhausted and the system breaks down?—We know that the system broke down in 1919-20 when the rate was fixed at two shillings.

5160. We will leave that question for the moment; let us go back to the question which you are assisting us upon as regards this danger of inflation. What are the safeguards under your gold currency standard which do not exist under any exchange standard system?—There is, first, as I have said, the free minting of gold. Gold will be brought into the mint and exchanged for sovereigns and sovereigns may be brought in for gold bullion. This free minting of gold automatically serves to stabilize the foreign exchange as well as the internal prices. Secondly, we have got the question of the free export. When England had laid an embargo upon the export of gold, naturally, on account of that the price of sterling could not be kept to the gold point. So there has been a depreciation. So in India also will be the case. Free exportability as well as free minting, then free convertibility, that is so far as notes are concerned, these are the three things which will be done under a gold standard and they would always depend upon market conditions. If more money is required, people will be coming forth with their gold to get it converted into sovereigns. If less money is required, naturally they will send in their notes and the money will contract. So these things are not to that extent possible under the gold exchange standard.

5161. Might it not be said that your safeguard against inflation is the observance of a due proportion between your reserves and the currency issued against those reserves. If the currency authority, whether the Government or the Bank, chooses to disregard the normal or the legitimate proportion of reserves to currency, then what is there to prevent it doing it in the one case rather than in the other? In order to put that question to the test of practical experience, did those countries to which you refer, England, Germany and France, which had the gold standard which you recommend, find the least difficulty in inflating to their hearts' content during the war?—Well we cannot say that there was the same automatic standard during the war as before the war.

5162. That brings me to the point of my question, and that is, would any standard prevent the currency authority from inflating, if it chooses to do so?—Oh, yes. When we come to the actual gold, we know of course that is a very small amount in circulation, in active circulation. Largely of course money depends upon credit instruments, whether currency notes, bank notes or cheques. In that case it is these which have to expand and which have to contract and they have got an automatic tendency. People will be bringing back, sending their cheques, their money, for deposit or sending their notes back to the banks. Naturally money will contract, but here there is no such thing. Our rupee is inconvertible under the gold exchange standard and the whole management is under the Government. We know of course that Governments are tempted to issue more at certain times.

5163. I understand that your preference there for a gold currency is based upon the circumstance that, under the exchange standard system as it was functioning in India, there was no provision for the automatic contraction of the currency, which is, I think, admitted on all hands to have been an obvious defect of the pre-war system. Is that defect remediable, in your opinion, on an improved exchange standard system, or is it not?—I do not stand for a managed currency at all.

5164. I am trying to examine a little deeper the process of your reasons for and against?—I have said that Governments cannot be relied upon in this matter; no Government, not the Indian Government alone; the Governments of Germany, England, all Governments are here on the same basis. Therefore, we should trust this function only to the Banks.

5165. Just examining your last reason, which I see weighs with you, against the exchange standard system, that is the failure to make any provision for the automatic contraction of the currency under that system before the war, I should like to have your opinion on this contention which has been put to us by various witnesses: that you might have an exchange standard system which would be automatic as regards the contraction of the currency in this matter. It was not automatic before the war because, when there was a demand for sterling with a falling exchange, that could be covered by borrowing from the gold standard. When the gold standard reserve was reduced, there was no reduction in the currency reserves, and therefore no automatic reduction of the currency. What has been said to us is that you can remedy that by combining the gold standard reserve and the paper currency reserve, so that there should be a fixed relation between your reserves in any form of currency, and there could be no possibility of diminishing your reserves by the sale of sterling against local currency without an immediate contraction of the local currency. Would that, in your opinion, remedy this defect to which you refer, the failure automatically to contract the currency?—For the last few years the paper currency reserve as well as the gold standard reserve have been combined. Paper currency reserve also was located in London, I mean so far as the gold portion is concerned.

5166. They were not combined in the sense of there being any necessary relation of strength between the gold standard reserve and the paper currency reserve. But in this essential, particularly from the point of view which I am considering, there was no such combination, was there?—The paper currency reserve, so far as I know, was in the minds of the authorities also kept up for exchange. In that case, in the gold exchange standard, we have got much emphasis laid only upon the stability of exchange rates. We are viewing currency from the point of view of foreign exchanges. Why is foreign exchange alone so very important that it should be kept in view? The prices, internal prices, and the stability of internal prices as well as the other things which are connected with a sound currency system, why should they be not before us? We have to see how we can attain, how we can achieve, a sound currency system in India which should work both for internal purposes as well for foreign exchanges. The foreign exchange standard merely shifts the question. It lays a stress upon, say, a part and a very minor part I should say, while the major portion is altogether

neglected in that way. The latter is shunted off from our way. I do not think a gold exchange standard can give us a sound currency.

5167. It is important to remember that that is the first question with which we began,—how gold currency in relation to internal convertibility, as distinguished from external convertibility, can possibly affect internal prices. Now let me ask you one or two questions upon points which are of interest in your memorandum. Under question 4 you deal with the important question of the future of the rupee? —Yes.

5168. I understand it is your recommendation that the rupee should ultimately be demonetised to the extent of making it no longer legal tender for any sum above Rs. 1,000?—That is for the present; not for ultimate purpose. Only at present, for a few years. I have suggested that as a tentative measure only.

5169. Then I think I have not quite followed you. Do you suggest that there should be an immediate measure to demonetise the rupee to that extent, or that you should wait?—Up to 1,000 it should be legal tender. But if we find that this also will be inconvenient we can reduce the limit to 100 or to less even. As present I propose that this should be as I have stated according to the reasons I have given.

5170. That you would do at once?—Of course; in 1928 as I suggested. If we are having this as a standard, naturally the rupee will be legal tender up to 1,000.

5171. In paragraph 3 you say that "the people of India are used to the rupee for the last several centuries. The demonetisation of silver will not be liked by them?"—Yes.

5172. Do I understand it is your opinion that that adverse effect would be wholly prevented by maintaining the large limit of Rs. 1,000 as legal tender? —I want to introduce slight changes if possible in the very beginning. That is my point and as a large amount of business is still to be done with rupees or by means of rupees, the people ought not to be put to any trouble. The masses generally are more or less habituated with the use of the rupee and therefore I want to cause as little trouble as possible.

5173. To understand how this will work, you say the gold exchange standard should be continued until you take complete control, with this modification that rupees and rupee notes shall be redeemable in gold notes. Gold notes would be redeemable in gold, would they not?—Yes.

5174. What I wanted to make clear was that in that case in effect rupees and rupee notes would be redeemable in gold. You get your gold notes against rupees and rupee notes, and gold against gold notes? —No. Gold notes will be given in exchange for rupees up to 31st March 1928. I say, let gold notes alone be given in exchange for rupee notes and rupees. That is, gold is to be given for foreign remittances and not for internal use.

5175. But the gold note is not itself to be encashable in gold?—No, not up to 1928 according to my scheme. We want to bring in the use of gold notes and when the people have been habituated for 2 years with their use and Government reserves also are sufficiently backed up, then it may be that gold may be given in exchange for gold notes, rupee notes and rupees.

5176. If one's desire is to inspire confidence, would not there be certain disadvantages in issuing a thing called a gold note which is not encashable in gold? Might not that tend very much to discredit your efforts to inspire confidence in the free availability of gold?—I think not; because we will have gold backing for gold notes. That I made clear; and the people when they have that confidence that with a gold currency gold standard will begin from 1st April 1928, then naturally there will not be any apprehension.

5177. For this period till 1928, against gold notes people could only get silver rupees?—Yes, silver rupees and silver notes.

5178. And you do not see any disadvantage in producing an impression that a thing called a gold note is in fact a thing against which you can only get silver rupees?—This is to habituate the people, instead of rupee notes, with gold notes and to have the unit of value, so to say, gold instead of silver. That can only be done slowly. Therefore we go step by step and that is the first step that I am proposing.

5179. My difficulty is that it appears to me that what you would be habituating people to is that they must understand that the thing called a gold note is a thing against which they can only get silver?—It is only for the interim. It is the mercantile community and the educated people who have to understand the whole thing, not the masses. The masses will not use many notes. If the mercantile community and the educated classes know that the intention of the Government is to begin initiating full gold standard from 1928, they will have confidence in the thing. We must allow some period for the reserves to be built up and if from the beginning we go on giving gold, naturally our reserves will be depleted.

5180. When you come to the period at which you begin to demonetise silver, as soon as it gets known that silver rupees are to be no longer full tender, even with the limit of 1,000 you fix, what effect will that have on the holders of rupees in hoards and as stores of value?—I do not think there will be much depreciation. That is the reason why I keep that limit very high. I do not say that rupees will be demonetised, because the stock of rupees when the population is increasing and when the demand for trade also inceases, no rupees being coined, will barely suffice and there will be no demonetisation in the actual sense of the word.

5181. At this period you will be beginning to give gold against rupees?—Yes.

5182. Would not you look upon it as at any rate possible that the result might be a great rush to change the silver hoards into gold, or do you think that is not likely?—I do not think so, on account of the reasons I have given. I say that the demand for the rupees will be sufficient and therefore I propose that there will be no actual demonetisation of the rupee, unless of course we find by experience that a great quantity has been returned to the treasury.

5183. In view of the possibility of a rush, do you think it will be prudent for the currency authority to undertake the obligation to give gold against rupees without providing against, at any rate, the possibility, because it is a serious thing, is it not, to undertake an obligation which may attain a certain maximum limit without having covered that maximum?—I find that about 74 crores of rupees are in the two reserves in London, that is the figure for 1924-25.

5184. 74 crores of what?—Gold and gold securities. Then there are 21 or 22 crores with the Currency Department, gold, I mean. This comes to 95 crores and within these two years we will be getting gold. If we get it even at the rate of 20 crores, we will have 40 crores. 95 *plus* 40 comes to 135 crores and so there will be a large amount of gold there.

5185. What is your estimate of the amount of rupees which is likely to be presented for substitution by gold?—It all depends upon the stock of silver rupees that we have got. I could not come across any latest estimate of the rupees in circulation.

5186. You have not been able to form an estimate of that?—No, I could not.

5187. Without forming an estimate of that kind, it is difficult, is it not, to form an estimate of the amount of gold that should be held before the step could safely be undertaken?—I think there will not be a rush, on account of the reasons given before. I am sure because every day there is the use for the rupee. There will be no question of a rush of that

kind. The rush can only be when there is any non-confidence in the Government or in the inconvertibility of the rupee. When they have got full confidence in the rupee, when they know that they can convert it at any time, there will be no rush at all.

5188. Will it not be a bit of a gamble to depend upon there not being a rush?—No; we have to see human nature. All of us are, of course, students of human nature and I do not think that when there is confidence in the currency authority regarding the full convertibility of the silver into gold and gold into silver there can be any rush. The people will not be panic-stricken in any way and the price of silver will not be going down much because we are not demonetising silver to a very large extent.

5189. In order to attain greater confidence in convertibility before you initiate this step, the only positive step that you would take, so far as I understand, is to issue gold notes instead of rupee notes?—Yes and building up the reserves.

5190. Is that a matter which impresses itself deeply upon the psychology of the hoarder, the percentage of your reserves?—The masses are led by the educated classes and when the mercantile community has got that confidence, this confidence breeds confidence and it percolatos to the masses also. What is our agency for creating any agitation? It is the papers and the mercantile community voicing forth their grievances. When they have confidence in the full convertibility of gold into silver and rupee into gold, I think there will be thorough confidence amongst the masses also.

5191. Your proposal is that the amount of reserves accumulated need not cover the maximum possible demand there might be; it need not take into account a rush for gold. If people really apprehended that the amount that you have accumulated is not enough to cover the maximum possible demand, may that not suggest to them the advisability of being first in the field and getting what there is to get?—This question can, I think, be elucidated by studying the ratios of notes to gold reserves. Well, in the various countries we find that this ratio differs from 14 per cent. generally to say 30 or 35 per cent. There are somo countries which have higher reserves after the War, if we see the conditions before the War and leaving France of course out of the question because the Bank of France has got about 40 per cent. of its holdings in gold; leaving France out of consideration and coming to the normal conditions before the War we find that this ratio varied from 14 to 30 or 35 per cent. gold in the banks against notes, etc., which they had issued.

5192. You are referring to the amounts of reserves held in the Central Banks in European countries against note issues in pre-war times?—Yes, and in that case if full convertibility is achieved we do not find that there should be any difficulty here when we have about 40 per cent.

5193. Does that really provide us with an analogy which gives any guidance as to the amount which we may require under special Indian conditions, where, as we are told, we must contemplate the possibility at any rate of converting into gold a very large accumulation of silver rupees which are held as stores of value in hoards? Is that not a very special circumstance?—I do not think there is a very large holding of rupees in the country. I was just making an estimate of how much would have been left in the hands of the people by referring to the silver imports from 1850 onwards up to 1925. If we study that, and allowing for a depreciation of 5 per cent. for various uses, then I find very little stock will be left in the hands of the people.

5194. I must not trouble you about the actual figures because you have not the means to make an estimate and we have possibly the best evidence available as to what they are. Turning to another point of your memorandum, let me ask you a question in regard to tho location of the gold reserve. You give some reasons in favour of locating all, or most of, the gold reserve in London. I understand the reasons against that are possible suspicion and misapprehension on the part of the public as to the uses to which the gold is being put?—Not all of them object on that account.

5195. Not all of them do. That is just the point. I want to know, apart from that question of confidence to which due weight must be given, what are the practical reasons against locating these reserves in a foreign centre and not in an Indian centre?—One is that we are buying securities and applying that money for financing foreign trade. If we have these reserves in our own country naturally the trade and industry of this country will be financed. This is the greatest thing. If this 74 or 60 crores at present used in that way to finance other countries were used to finance our own trade and industry, there would be so much more good done to it.

5196. These are the currency and exchange reserves?—Yes.

5197. Just to follow out you opinion, would you assist us to understand how those credits will become more available for the financing of trade and industry by being kept in India?—Of course it is to be supposed that the management will be with the Imperial Bank, not with the Government altogether, but with some Bank.

5198. That is your recommendation?—Yes, with some bank; with the Imperial Bank, the State Bank. In that case the banks have their branches outside also and they are always buying foreign paper. Every bank in every European country to make remittances does hold foreign credits, so at the timo when it is necessary they will remit those foreign credits for making up the exchange if there is an unfavourable balance of trade or buying more. It all depends upon the market conditions.

5199. But are not those processes just the same whether the reserves are held in one place rather than another?—Well, ultimately they do not come to be different but it is the question of the agency. On the one hand trade conditions settle the rate; on the other hand, the Secretary of State has got the discretion and the power to sell and to buy; and that makes the whole difference.

5200. Just to take an hypothetical case, if the reserves were controlled by the Imperial Bank and yet held in a foreign centre your objection on this ground would be removed?—Of course it will be; but in that case the bank will not be holding so much money in foreign securities. We have got so many foreign exchange banks here and they have their head offices in London; it is very easy for them to make all those remittances.

5201. I quite follow how the matter presents itself to your mind. You say here the control of the note issue should not be transferred to the Imperial Bank, because the masses have no confidence in the Imperial Bank. I would like to clear up what your opinion is on that. Do you mean it to be read in connection with your next paragraph, that the constitution of the Imperial Bank should be improved?—Yes, this is to be connected with that.

5202. So I rather gather that what you say is that there might be such a transfer after an improvement in the constitution of the Imperial Bank?—Yes.

5203. Would you tell us what is the substantial nature of the change in the constitution of the Imperial Bank which you would consider satisfactory as a preliminary to the transfer?—The representation of the Indian element should be increased, say in tho directorate, as well as among the shareholders. More capital should be issued and in that way Indians should be encouraged to come in. And then I have suggested that the latest recommendations of the Controller of Currency in the United States of America should also be given effect to in the control of the Imperial Bank by the State, and at the same time I think some committee should be appointed, say a currency committee, from the representatives of the people in the Legislative Assembly who should be kept in close touch with the Bank's affairs, and in that way they would be able to inspire confidence both in the Government and the Legislative Assembly as well as the people.

5204. Do you approach this question of the constitution of the Imperial Bank from the point of view that it is desirable that the constitution of the Indian Central Bank should make it subject to Government control or should make it free of Government control?—I think there should be Government control, but with the proviso that I have stated here that there should be a committee, say a currency committee or a banking committee or whatever you may name it, consisting of elected members of the Legislative Assembly and that committee should be kept in touch with the Bank's affairs just as we have got a Standing Finance Committee to come in close touch with the Finance Department. Similarly there should be a committee of that kind.

5205. What would the functions of that committee be, advisory or executive?—Advisory; no executive functions can be given; those must be mainly with the Directors. The committee will be there merely for checking the business and inspiring confidence among members of the Assembly and through them among the public.

5206. It is a common doctrine among the publicists of Europe that, in order to prevent the interference of political considerations with monetary policy, it is desirable that the Central Bank of issue should be absolutely independent of the Government. I understand that you adopt a contrary opinion under Indian conditions, and perhaps you would tell us what the special conditions are in India which make you think it desirable there should be Government control?—Up to the present fortunately or unfortunately—I think unfortunately—the people have not had confidence in banks. We can divide our banking institutions into two classes, those which belong to India properly, subscribed by Indian capital, and others, foreign exchange banks and others like these, and the Imperial Bank also to a large extent comes under the same. Since 1913 when there were banking failures, the confidence of the people has been rudely shaken in our banking institutions and I do not think that up to the present time it has been fully restored. People are not very much connected with the foreign banks, that is, the foreign exchange banks and others; they do not come much in contact with them, and they are not doing their business also for internal purposes. In such a case it seems to be, in my opinion, a fact that people have not got as yet any knowledge of the

5209. Now, let me ask you a question on another passage in your memorandum which may perhaps require some elucidation. On page 9 you say that seventy million pounds of gold in circulation in India will do an incalculable good to trade and industry here; and lower down you say that the world owes so much money to India and we can claim its payment in the form of gold. With regard to that, is it in your opinion better for India, when the choice is open, to import gold and silver rather than the corresponding value or securities or indeed definite wealth-producing commodities?—The value of the two reserves in London is 73 crores; and the question is whether they are to be brought back in the form of gold or securities: I suggest that they should be brought for the present in the shape of gold; naturally that conclusion would follow.

5210. My difficulty was about the words "in circulation." I wondered whether we were to take it that, in your opinion, gold in circulation enriches the country more than the gold's worth in the form of good investments abroad or commodities brought home?—In the shape of securities also it will be giving a help to our trade and industry, if those securities are in India.

5211. Not if it is in circulation?—I do not mean here actual circulation; what I mean is that if it is brought to India naturally we will have a gold currency; of course it will go into circulation; but I do not mean in actual circulation.

5212. Again another point in your memorandum that I think you can elucidate is where you say: "Gold Standard will not be much more wasteful in India than in France or Italy." What would distinguish our gold standard in India from that in France would be that there will be gold actually in circulation?—Yes, in India it will.

5213. In France it is not?—Not so much as it will be in India; there is more gold in circulation in France and Italy than there is in England on account of the cheque system prevailing there and the credit system being more used.

5214. Accepting for the purpose of my question the assumption that it is desirable for ulterior reasons to have gold in circulation, I suppose we can agree that to put gold in circulation is an actual expense?—Yes.

it; in the first six months there may even be what is called a rush. There will be a demand no doubt.

5219. There will be some demand against which it will be necessary to provide some further stores of gold?—Yes.

5220. And in so far as it is necessary to provide some further stores of gold that will involve some expense?—Yes.

5221. Have you been able to estimate at all what the expense involved would be?—No; I have not actually worked out the figures.

5222. We are looking at this from the practical point view?—I can express it in this way: that taking 1 per cent. to be the increase of population and, say 1 per cent. for the increase in prosperity, it means about 2 per cent. increase every year in the circulation. We have got, say, 400 crores of rupees in circulation. We require about 2 per cent. a year more. Silver will not be monetised, but instead gold will be monetised and at the same time some money will be returned, that is, rupees will be returned to the treasuries, and gold will be required instead to some extent. So for the first six months there will be a large demand; but after that when normal conditions have set in I think we can take about 5 to 6 per cent. as the demands for gold for actual circulation.

5223. Taking it at that figure, it is very relevant to consider, is it not, when we are considering the practical advantages and disadvantages of the proposal, what it will cost, because it might indeed cost so much as to be prohibitive. On the other hand it might cost such a mere trifle as to be quite negligible. Somewhere between the two one must decide what is the limit of cost at which you think the proposal would be worth while?—I have already expressed that when I said that in the countries which are having a central banking system they have a 13 or 14 per cent. gold backing for their note circulation. I consider the rupee and the rupee note to be on the same level. If the rupee and the rupee notes in circulation are both 600 crores it means that we need have about 25 per cent. backing in gold; that gives us a rought estimate of the gold which will be required for backing our system.

said during the course of the discussion that we have got 74 crores in our reserves; another 20 crores in the paper currency department; that means 94 crores there. It is possible that we may require over and above this amount, about 50 crores for paying gold, that is, by means of borrowings. I think there will not be more demand in the very beginning. During these two years when the reserves have to be built up about 50 to 60 crores will be required, not more than that.

5226. On which the interest charges would be about 2 crores a year?—Yes, at 6 per cent.

5227. Taking it at that figure, would it seem too much to pay for the benefits you mention, or not?—No, I do not think so.

5228. You would be prepared to raise it to that extent?—Yes.

5229. We have to recognise of course that, whatever the additional charge, it will have to be met somehow in the national budget, either by economising or by fresh taxation?—Yes.

5230. There are just one or two more questions I should like to ask. In your memorandum (Appendices, page 225) you express the opinion that the Secretary of State should not have been given the power to sell Council Drafts beyond his own requirements?—Yes.

5231. If you are referring to the working of an exchange standard, is not the power and the obligation to remit without limit at the gold points an essential part of the machinery for the working of any such standard?—Not necessarily. He can draw it through the Imperial Bank.

5232. Even if it is the Imperial Bank that has to draw it. If an exchange is being worked, the way in which that standard works is, is it not, that the currency authority must be prepared to buy and sell whatever it is necessary to buy and sell in order to maintain the exchange within those points?—I may here wedge in one remark and that is this, even if the gold standard is to be kept up, I say it should be kept up on the same level as England has got at present. That is, there are no foreign exchange rates fixed. The exchange rate between sterling and the mark or the exchange rate between sterling and

—Yes. But there is no ratio fixed between the mark (the gold mark I am talking of here) and the sovereign, or the sovereign and the dollar, the sovereign and the franc, or the sovereign and the lira. There are no such rates fixed either by the bank or by the Government at all. It is the day to day operation of the trade which is fixing the ratio. The Government is not doing anything, nor is the bank doing anything. We should say, the commercial community, whatever the conditions of the market are, in the two countries, these are fixing the ratio.

5238. What is the essential difference between that system and an Indian gold exchange standard system, under which the value of the rupee would be fixed at 1/15th or 1/13⅓rd of the quantity of gold in the sovereign?—The sovereign is the circulating medium in England.

5239. The sovereign is not?—Before the war it was, though in very small proportion. But that point has already been cleared, because a small actual circulation of gold does not mean that it is not a gold standard. But let us leave that point for a moment. Let us say the sovereign is the circulating medium in England. Or say the franc is the circulating medium in France and the rupee is the circulating medium in India. Country A and country B are to be pegged to each other for their exchanges. Well, in England you are not now fixing in that way the rates between country A and country B. Neither the bank, I should say, is fixing it nor the Government. During the war, for instance, they had pegging. The English Government then had pegged the sterling to the dollar as well as to the franc. That was merely a managed system. The normal Indian system before the war, as well as up to 1920, I should say has been that of the war, when the English sterling was pegged to the dollar and the franc. What I want is that there should be no pegging at all, as there was during the war, but it should be left to itself. For internal purposes naturally you will have pegging but not for external purposes.

5240. Now on the question of the ratio, returning to your memorandum in which you deal with this question, I understand that you express an opinion in favour of the ratio of 1s. 4d.?—Yes.

5241. In the first place, let me put for your consideration what I imagine might be the contention of a critic who was dealing with this part of your exposition. What would you reply to one who said that many of the benefits to which you refer as resulting from the 1s. 4d. ratio are the benefits which can always be obtained no doubt by a measure of inflation, but that such benefits are temporary, as experience has shown, and are followed by a reaction which produces evil effects which more than counteract the temporary benefits?—Yes.

5242. That is obviously a criticism which might be made in connection with such an argument as you develop here, is it not?—Yes, it may.

5243. And what is your reply?—May I have the question again?

5244. That the benefits which you anticipate here from the effect of returning to 1s. 4d. are benefits which are characteristic of any measure of inflation, that such benefits are only temporary and are inevitably followed, after a period of prosperity, by evil consequences in the nature of a reaction which more than counteracts the temporary benefits?—Is that inflation going to be through the Government or through automatic causes?

5245. How can we get back to 1s. 4d.? That is the first question to which we must direct our attention?—I have shown there will be two things by the adoption of the gold standard, the price of silver will go down and the price of gold will go up. Naturally the ratio will hover about 1s. 4d. That is the automatic effect of that. And it is for internal purposes that we are fixing the rate at 1s. 4d. and not for external purposes. Just as 20 shillings are to be exchanged for £1, similarly 15 rupees are to be exchanged for £1. That ratio is for internal purposes only, according to me, because I am not in favour either of fixing the foreign exchange or having a gold exchange standard, and secondly, as I have said, even if there is a gold exchange standard, let there be no foreign exchange rate. I am here only discussing tho question from the internal standpoint.

5246. Would you mind repeating your answer? Some of us have a little difficulty in hearing the whole of your answers?—I say by the adoption of the gold standard there will be a depreciation in the price of silver and there will be an appreciation in the price of gold. So this appreciation on the one hand and depreciation on the other will bring the ratio of the rupee to the sovereign say to 1s. 4d. and the present ratio of 1s. 6d. for instance will not be retained on account of the appreciation of gold and the depreciation of silver. This is the automatic change which will be brought about between the two prices. Therefore it will not be through the action of the Government. Government has only to adopt the gold standard, the automatic forces will come into play and the ratio will possibly be 1s. 4d.

5247. Could you explain a little further how the fall in the price of silver will affect it, because, *ex hypothesi*, we do not adopt the gold standard except concurrently with the demonetisation of the rupee or its reduction to the position of a coin which is no longer the standard coin?—Yes. Silver is necessary for the monetisation of money—every year, of course, money is being monetised. Henceforth, silver required for the monetisation of the rupee will not be required. There will be less demand for silver. And then there will be the psychological effect also on the silver market. So, less demand for silver for monetisation and the psychological effect, these two will reduce the price of silver. And more demand for gold for the adoption of the gold standard will send up the price of gold.

5248. Send up gold prices?—Yes, the price of gold will go up.

5249. Finally, I want to ask for your assistance in elucidating a passage in your memorandum, where you say; "India as a debtor nation will be benefited by the return to 1s. 4d." It is not quite clear to me how India would benefit by having to find more rupees to meet a given sterling obligation?—It will have to sell less commodities, and in that sense it will be gaining. A falling rate is more favourable to debtors because they can easily pay off their debts by paying money of less value. So India also is in the same category as other debtors are.

5250. But as regards her sterling obligations, she would have to sell more of her produce in order to raise the same amount of sterling credits, and must that not be set against any other possible benefits?—How? I beg your pardon?

5251, In order to raise certain credits to pay fixed sterling payments, she will have to sell more of her produce?—But that will not be the case if there are higher prices, naturally there will not be so much; or more produce will not be required; it all depends upon the price and the quantities.

5252. Does it not follow from that that, in this matter as indeed in all others in connection with a fall or rise in exchange, you usually find some other side of the account to be considered beside the first, some detriment to be set against the benefit? —Therefore I have stated the question from both the points of view.

5253. (*Sir Reginald Mant.*) There are two points in your recent replies to the Chairman which I did not quite follow. In the first place I understood you to say that the adoption of a gold currency would reduce the price of silver and bring down the value of the rupee. Now the rupee as we have often been told may be regarded as a note printed on silver. If you reduce the price of paper, it will not bring down the value of the paper note. Would you explain how reducing the price of silver would bring down

the value of the note printed on silver?—I do not think that I said so, that the price of the rupee in that way may be brought down. The price of silver will be brought down, and we are considering here the ratio between the price of silver and that of gold. Therefore when there is a greater demand for gold, gold will go up in price, while the smaller demand for silver will reduce its price. The ratio prevailing now between gold and silver will not be the same as it will be when we adopt the gold standard and demonetise our silver. If we have pegged the rupee at 15 or 16 or 18 to the pound, that ratio will remain. That has nothing to do with the price of silver because the rupee is a token money. The price of the token money will be in no way affected by the price of silver going up or going down.

5254. How does the price of silver come into the argument? What is the relevancy of your reference to the price of silver? I did not quite follow that?—That will be in the case of foreign exchange. Internally, we peg the rupee at 15 to a sovereign. This is in no way affected. Of course, if the ratio is such that the silver in the rupee is more than it can be had in the market, naturally it will have an adverse effect. The ratio should be such that the value of the silver in the rupee will be less than it can be had in the market. But for external purposes we have to see that the ratio of the prices of silver and gold, whether it will be 1s. 6d. or 1s. 4d. or any other ratio between the two I think that the natural rate, the natural ratio of the prices of silver and gold, will vary on account of the adoption of the gold standard and the demonetisation of silver and it will be anywhere between say 1s. 4d. and 1s. 6d.

5255. I presume the immediate effect of reducing the value of the rupee to 1s. 4d. would be an increased demand for currency in India, would it not?—Why?

5256. You would require a larger number of rupees to carry out the current transactions of the country, if the rate be 1s. 4d. than if it is 1s. 6d.? The effect would be similar to what has been called inflation?—As I have suggested, you might issue gold notes and issue the rupee notes, but as I suggest, we should for two years issue gold notes only so that people will be habituated to that form of currency.

5257. But the results which you anticipate, appreciation of prices and the stimulus to trade and industry, would be similar to those which ordinarily follow from inflation of the currency?—Yes, the inflation of the currency by automatic causes. If the trade requires an increased amount of currency there will be an inflation. If the trade does not require it, then there will be none.

5258. But this is not an automatic increase? The proposal which you make to reduce the value of the rupee from 1s. 6d. to 1s. 4d. is not automatic? It would be an arbitrary change? There is nothing automatic about that? That addition to the currency will be practically a measure of inflation?—To some extent it will be.

5259. And would not equally beneficial results follow if you carried the process further and reduced the value of the rupee to 1s. 2d.?—We ought to have such a ratio as can be maintained and which should not be revolutionary. The people have of course now been used to fifteen rupees to the pound, and that was the case even in Moghul times; Rs. 15 gold mohurs were used then; moreover the prices of silver and gold are hovering about this ratio. That is what I am saying, that by the demonetization of silver and the monetization of gold in India the prices will come up to this ratio of 1s. 4d. Now the ratio is 1s. 6d. to sterling, which means, to the sovereign it is about 1s. 4d. and some points. When therefore we suggest that it should be 1s. 4d., naturally it will be an automatic change.

5260. You are really supporting the 1s. 4d. rate on the ground that it is a natural rate and because people are accustomed to it?—Yes. Two reasons I have given, first, that it is an automatic thing, that the ratio of the prices of gold and silver will be about 1s. 4d. The second is that the people are used to this, they have been used to Rs. 15 for one pound; and therefore if we keep up that ratio, it will be desirable. Then I give various other reasons which of course support my view that 1s. 4d. is more desirable as giving an impetus to trade and industry and so on.

5261. The other reasons being the usual inflation benefits?—Of course.

5262. The other point which I did not quite follow is this. You said that India being a debtor nation would benefit from a depreciation of the value of the rupee. Would you explain how she would benefit in regard to her foreign obligations?—Well, I look at the question in this way, that so far as commodities are concerned, we have to pay our debts by selling commodities. All that will be paid only by means of exports. So we have to see whether less exports have to be sent or more exports have to be sent for the price that we have to get; and in India of course we will have to dispose of more commodities when we are to get Rs. 15 for one pound. Fifteen rupees will have to be obtained in order to get a pound. Well apparently it seems that more commodities should be sold to get fifteen rupees in the country in order that the debt may be paid. But the question is that because prices will have risen, therefore the result will be that probably the same amount of goods will be sold or even a lesser amount of goods will be sold to realize the price. Therefore India as a debtor country will in no way be suffering but it might gain.

5263. How would it gain? I do not follow that?—If the debtors in the country itself are to sell less commodities in order to pay off their debt, by the rise of prices,—to-day, if there is a rise in prices, naturally I will be selling less commodities to get the same amount of money.

5264. Are you referring to a rise in internal prices or external prices?—From the rise in internal prices we are going to the rise in external prices.

5265. And do you suggest that by reducing the exchange value of the rupee India will raise external prices, the gold prices abroad?—It cannot raise gold prices in that way. There will be an appreciation in the price of gold, which means there will be a fall outside, because we will demand more gold, there will be appreciation in the price of gold, and there will be a fall in prices outside.

5266. We could leave out the question of the demand of gold from this argument because the reduction in the value of the rupee which you propose could be equally well effected under a gold exchange standard without bringing in the question of a gold currency. For external purposes also; we are exporting from here agricultural produce and commercial products? Well the unit of value being the rupee for the masses, they merely evaluate all their needs in rupees. They will be selling less crops for obtaining the same amount of rupees. It is when it comes through the hands of the exporting firms that they deal with foreign countries. The masses having the rupee for the present as the unit of value, will be selling less commodities internally of course for getting the same amount of rupees. Therefore when we come to the question of the debts of one country to another, it has to be seen whether we are selling less commodities or more commodities. I think we shall be selling less commodities to give the same amount of interest or to pay off the same amount of debt.

5267. You suggest that although foreign prices have not risen, foreign countries will be prepared to accept a lesser amount of commodities in discharge of your foreign obligations?—When our prices have risen, on account of the sympathy of the market, the prices of commercial products will also go up; we have a monopoly in several things, such as jute, tea and skins and seeds. Thus on account of the general rise in the level of prices, the foreigner will be paying

more prices. The prices of these commercial products and crops are to be settled by the conditions which are prevailing in our country.

5268. You mean then that by reducing the value of the rupee you will be able to force up prices abroad?—To some extent we can. A crisis in one country can either raise the prices or bring down a fall of prices in other countries. The world is linked together in these days.

5269. One other question, Dr. Balkrishna; you have given a glowing account of the stimulus to trade and industry that arises from a rise in prices. Would not the same effect occur in a gold using country from a fall in the value of gold?—It will.

5270. And all gold using countries will, therefore, benefit from a fall in the value of gold?—Yes.

5271. Now turning to your memorandum (Appendices, page 223) in which you discuss the effect on the world of a possibly large absorption of gold by India, you say "the introduction of a gold currency in India by arresting the fall in the price of gold will do a real good to the whole world." Could you explain that apparent discrepancy with your previous argument?—Yes; the prices on account of the war and other causes after the war, have risen to such a high level that those countries which have got these high prices will suffer more if there is a rise in the prices which are already on the peak; Germany, France and even United States, all of these have got high prices and it is better for them that those prices should be reduced a little.

5272. But the argument was, was it not, that the rise of prices produce cheerfulness, buoyancy and so on?—But there ought to be a limit for these. If these prices have to be approached to the gold level, there ought to be a great deal of deflation and also therefore a fall in the price of the commodities. But that can be brought about only by the adoption of a gold standard by these countries or if the conditions do not allow them to adopt a gold standard, India should come forward and adopt a gold standard and thereby relieve the pressure on those countries. That is the gist of my argument.

5273. Then perhaps I should be right in summarising your position as advocating a small dose of inflation but not too much of it?—Yes.

5274. (*Sir Purshotamdas Thakurdas.*) In replying to Sir Reginald Mant, you said that in your opinion 1s. 6d. sterling to-day was equal to 1s. 4d. gold?—I do not know the actual rate now.

5275. Is not the sterling very close to the gold point to-day?—I think there was 6 to 7 per cent. premium. A few months back it was even 12 per cent.

5276. It has been round about 4·86 for some months now. It is very close to the gold point. If that is so, 1s. 6d. is not 1s. 6d. sterling but 1s. 6d. gold also?—It has been coming up. It may be a month or so; it has been coming up from July onwards.

5277. You are not in touch with the latest quotations?—I say it has been coming up. My impression is that before July there was a depreciation to 10 or 12 per cent.

5278. You do not know what it is now?—No.

5279. Can it be said at present that 1s. 6d. is 1s. 6d. sterling and it represents gold also?—Of course if the price of sterling is equal to gold, it will be that.

5280. In paragraph (9), (Appendices, page 217), you say, "This can be done by issuing sterling notes." What do you mean by "issuing sterling notes"?—The word "sterling" is used loosely. It should be "gold."

5281. You would like the word "gold" to be substituted for "sterling" there?—Yes.

5282. (*Professor Coyajee.*) As regards the point put by Sir Reginald Mant to you, don't you think that the ultimate exchange is between goods and goods between two countries and that the ratio of 1s. 4d. can be of some benefit to the exporter only temporarily, until the prices adjust themselves to the new ratio?—Yes; it will be.

5283. Temporarily there will be some benefit?—Yes.

5284. Then there was another point. In your memorandum you have argued that by bringing the gold standard reserve and the paper currency reserve to India, our industries could be assisted. You added that the Imperial Bank should hold foreign bills in order to control the foreign exchange. Then what would you do with the gold standard reserve?—Some of it will be employed in buying Indian securities and some amount will be utilised in foreign securities and the rest can be in liquid gold.

5285. But so far as the Imperial Bank holds an equivalent amount in foreign bills, that will also help to finance foreign trade?—In every country we are doing that.

5286. What kind of help, assisting foreign trade?—To some extent. But we have to take other things also into consideration; when we have got the gold standard with gold in circulation, other countries will have to buy our securities to pay off our debts. Then the gold securities will be interchangeable and as we are a creditor country so far as our exports are concerned, they will be more eager in buying our securities than we will be. I think we will be in a better position to hold in that way less foreign securities than our securities will be in the hands of the foreigners.

5286A. That is true; but that is irrespective of whether the gold standard reserve is in India or we hold our bills on foreign countries. They must be holding our securities already.—Now we have these rupee securities; at that time we will have more or less gold securities.

5287. What I mean is this: Uniformly they must be holding bills on us?—Yes.

5288. They must be holding them even now?—Yes.

5289. (*Sir Rajendranath Mookerjee*): You say that by substituting for the present ratio the ratio of 1s. 4d. the prices of commodities will increase?—Yes; there will be a tendency for that.

5290. And the agriculturists will gain?—Yes.

5291. Now among the agriculturists, there are many who have very small holdings and whatever they produce, after providing for their own necessities, leaves a small margin for outside sale. Therefore whatever profit they make by selling the little portion of their produce will go to compensate the loss they will incur by having to purchase other necessaries of life at a higher price, such as dhoti, fish and so on which they do not produce. Do you agree with that?—No, I do not agree.

5292. Will you please explain why you do not agree?—We know that many villages are self-sufficient. Little of the foreign cloth or even the cloth which is made in our mills at Ahmedabad and Bombay is consumed by our villagers. They produce their own cloth and, for the present, the tendency on account of the Gandhi movement is to use indigenous cloth. So this movement is making them self-sufficient. There was a tendency for that self-sufficiency to be broken, but now I find that on account of this movement when cloth is to be produced in each village, they do not require much cloth.

5293. That is the future. But at present the agriculturists cultivate their land. They turn out a certain produce, mostly food crops. After they provide for their food, they have a very little to sell to outside people. That much you admit?—Yes.

5294. They may get a higher price if we fix the ratio at 1s. 4d. But though they may get a little higher price, it is not sufficient for them to buy other necessaries of life?—We have to find out in each case the ratio of the money spent on them, on things which they buy from elsewhere and also the ratio of the produce they sell and then we will be able to find the profit.

5295. Generally speaking, they have got small holdings, 1 acre, ½ acre and 2 acres?—But they are at the same time paying part of the produce to the zamindar. That is half of the produce or nearly ⅓ of it they pay to the zamindar and he will be selling it.

5296. Are you quite sure that even that little profit they make does not go to the money lender or to the

middleman?—No—They will sell less produce to the money lender.

5297. So that the profit goes to the money lender and the middleman?—No.

5298. I leave it there. Reverting to what the Chairman and Sir Reginald Mant asked you about, you state in your memorandum that the falling rupee is favourable to India as a debtor nation. Again you say (Appendices, page 220): "India has been a creditor country and it shall remain so as far ahead as we can see." Will you explain in which sense you use the words "debtor and creditor" here?—Debtor in the sense of Home charges only; because there is no other debt to be paid; and also the debts that the Government raise for productive and unproductive purposes. Debtor in the sense of home charges to be paid annually for the Home Government and secondly in the sense that debts have been raised by Government for productive and unproductive purposes just as every Government has got some debts. In these two ways we are a debtor nation. We are a creditor nation in the sense of trade, or foreign trade. Our exports are always more than our imports; so in that way we are a creditor nation.

5299. So we gain both ways, without being absolutely either a creditor or a debtor, according to your theory?—Yes. It has to be seen what is the proportion between the debts and credits.

5300. (*Sir Maneckji Dadabhoy*): Dr. Balkrishna, in answer to the Chairman you stated that the currency of the country should not be looked upon only from the foreign exchange point of view?—Yes.

5301. Now, you know that India is a country of raw materials and is under the necessity of exporting her surplus produce. Do not those considerations make it impossible to avoid the considerations of the foreign exchange as a material factor in our economic history?—No, Sir, my words are foreign exchange should not be given predominance. That is the idea.

5302. That is different. You now say it ought not to get predominance?—That is the note underlying the whole of my memorandum, that the policy of the Government has been more or less based on the stability of foreign exchanges. I say it should not be so; it should be based on internal prices. Therefore it is a question of predominance and the relative importance that is given to foreign exchanges.

5303. I see your point. Then you want to settle the ratio so far as internal prices are concerned?—Not that alone. I do not say that we should ignore the foreign exchange altogether. We should of course have in view the question of the foreign exchanges too; but more than that we should pay attention to the stabilisation of internal prices and to a sound currency system by which of course this end can be achieved.

5304. Then so far as foreign exchange is concerned, you want to leave it to natural conditions, to adjustment of trade; that trade should adjust the ratio?—Yes.

5305. From time to time?—Yes.

5306. And you think that the adoption of the gold standard may stabilise the exchange to a certain extent?—Yes.

5307. That is how I understood you. Now during the interval we have also to make our Home remittances and charges. On the basis of what ratio will those remittances have to be made and how will they be made?—The basis will be the rate which is fixed in the market between gold and silver as it has been going on up to now. The Government fixed the ratio at 2s. but that ratio could not be kept up and the Government then left the whole thing to automatic causes.

5308. Then even in the matter of Home Charges it will have to be left to automatic causes?—I say it should be made through the Imperial Bank and therefore the Government has nothing to do with the fixing of the rate. It should be done only through the banks and that means natural causes will come into operation.

5309. But the Government of India in framing its Budget will have to adopt some ratio; otherwise how can it adjust its balances?—I see there will be some uncertainty in the framing of Budgets, but of course it is impossible to remove the whole element of uncertainty when you leave the rate to natural causes. That inconvenience will always be present, especially during the interim when the ratio is fixed at 1s. 4d. I think, as I have already said, on account of certain causes the ratio will hover about 1s. 4d. Therefore the Government can make provision for the variation of the ratio: it may be to 1s. 5d.

5310. No, but the Government has to adopt some definite figure in its Budget, either 1s. 6d. or 1s. 5d. or 1s. 4d., otherwise Indian finances will be in a state of chaos. So if you leave it to automatic causes and conditions to work out the destiny of the ratio what will be the position of the Government of India in the matter of its Budget formation?—Well, it will have to make up for the losses with a supplementary Bill; there can be no other alternative here. When we leave the thing to automatic causes we cannot divine what will be the rate at any time. If we fix the rate at 1s. 4d., the Government will be framing its Budget at that ratio; and if the ratio fluctuates adversely and the Government sustains a loss, naturally it will come up to the Assembly and ask for more grants.

5311. Then if it is to be left to these automatic conditions, will you please let me know how long it will take for the automatic forces to bring the ratio down to 1s. 4d. Have you made any estimate of the time?—I do not think any one can divine the effect of these forces. It is very difficult because if the gold standard is adopted by Germany or by some other countries, such as Australia, the appreciation in the price of gold will be very high and probably the rate may come up to 1s. 4d., and then as I find the production or output of gold also is being lessened the price of gold will go up to some extent on account of that cause too. But if the Central European countries do not adopt the gold standard, the price of gold and silver may remain divorced from each other for a long time. Therefore there are so many causes which are uncertain in their nature that any estimate of the time to be given as to the fixity of the ratio as 1s. 4d. will be impossible for us to make.

5312. Then would not during that interval there be dislocation to a certain extent?—In foreign exchanges for the remittances of the Government?

5313. Yes?—Yes, there would be and the Government would be on the same basis as the merchants. The merchants are dealing with these things say up to the extent of 4 or 5 hundred crores of rupees, while the Government has to remit only 30 million pounds. It will be placed on the same level as the merchants of the country; it will not have to suffer more. Merchants as a community will be also liable to that fluctuating rate and in every country they are liable to that fluctuating rate; what if the Government is in the same position as the mercantile community?

5314. Will this fluctuating exchange then in your opinion have any effect on internal prices?—It is a very complicated phenomenon. There must be some effect of the fluctuating rate of exchange, otherwise there is no use in saying there should be fixity. These exchanges and fluctuations must have their effect on internal prices, otherwise why should we try to fix the ratio at 1s. 4d. By reducing the rate you are having an increase in prices, and by raising the rate you will have a fall in prices. Therefore it means that internal prices are linked to some extent with the foreign exchange. But as every one of us knows the phenomenon of prices is so very complex that we cannot say that this cause is more important than the other. This much I can say, that the internal prices are linked to some extent to the foreign exchanges.

5315. Will this policy of non-interference be on the whole to the interest of India?—I think so.

5316. (*Sir Henry Strakosch*): Professor, I should like to ask you a few questions with regard to a statement which you made with reference to the amount of gold needed to put your plan into operation. When I

speak of your plan I mean the plan in 1928 of converting the token coins, be they notes or rupees, into gold. You told us that you thought that as the European countries held a matter of 14 to 35 per cent. of their note circulation in reserve, a similar ratio might be applied to India?—I did not say similar, not exactly the same ratio. I said that gives us the basis for estimating the gold that will be necessary for us. That will be the mimimum rate which must be required and Indian conditions will require more.

5317. They will require more? At what percentage of the note circulation would you estimate the requirements?—If I am not wrong in my impression I think 35 per cent. is the present holding of the Goverment of India in liquid money to its own notes here. That has to be seen. Well if that is the case, in the first few months we shall require a large gold reserve; I think 50 per cent. will be necessary in the first six months; afterwards normal conditions will prevail and we can come down to the same reserve as the Government is holding now. That is what experience has shown us.

5318. In that connection you probably follow the statutes of the chief Central Banks who are entrusted with the management of the currency in other countries, and you probably know that the minimum reserves to be held by, for instance, the Central Bank of Germany, the Reichsbank, is about one third of its note issue, that the Federal Reserve system 40 per cent. of its note issue?—Yes, Sir.

5319. I do not quite appreciate why you say that in Europe notes were covered before the War by 14 to 35 per cent. of gold. I am telling you the minimum reserves?—No doubt so far as Germany is concerned, in France of course there is no statute, but in Germany there was; and when I said 14 to 35 I was also thinking of the English banking system and the ratio of the deposits against cheques, I mean against the cheques they have issued and the notes. The 14 per cent. of course refers to the reserve against notes as well as cheques. In certain banks, for instance, the result came to only 14 per cent.; in others a little more and in others higher still.

5320. But have you not got to take the percentage of reserves held by the Bank of England and not by individual banks as a measure?—Well that is a banker's Bank. Naturally it must have a large reserve; it must hold a very large reserve. I have referred to what the banks themselves are holding.

5321. But these banks can go to the bankers' bank and discount their bills at any time and procure currency and credits with the Central Bank. Haven't you therefore really got to estimate the position from the balance sheet of the bankers' bank? —Yes we have to; therefore we can find out the ratio in the other way. The bankers' bank, that is, the Bank of England's reserve only will not be the right guide because that is the maximum amount held. On the other hand, the banks' reserves will be the minimum. So we have to find out a ratio which will lie between the two, the reserve in the Bank of England and the reserves in the other banks.

5322. But if those other banks hold their reserves as balances with the Bank of England, would you not then say the return of the Bank of England is the only guide?—Therefore I am saying that is the maximum limit; the reserve in the Bank of England is the maximum; while the reserves in the other banks will be the minimum, and between these two we can find out the true ratio to the note circulation.

5323. Would you be surprised if I told you that the Bank of England held in pre-war days about 50 per cent. of its liabilities in reserve and equally the big central banks of gold standard countries?—There is special consideration to be given to that point of the 50 per cent. reserve in the case of the Bank of England; it is not only the financial conditions of England which have to be looked to; but London being the financial centre of the world and having to make payments through its financial machinery to nearly all the countries of the world, it had to hold a very large amount of reserve for that purpose. In the case of India, as she will not be the financing centre of the world and will not have so much banking business, we can therefore hold less reserves.

5324. But what is the purpose for which you hold these reserves?—For converting notes into gold and for foreign remittances.

5325. Exactly: I wanted to come to that. It is for foreign remittance that you are holding the reserve, and therefore if there is a possibility of these foreign remittances requiring a large amount of gold your reserve has to be proportionately high, has it not?—I have said that.

5326. Now, then, on introduoing a gold standard with gold in circulation you say you estimate that 50 per cent. cover of the note issue would be sufficient?—Yes.

5327. The note issue at present is 190 crores?—Yes.

5328. So that you would regard 50 per cent. of that as sufficient, which means 95 crores?—Yes.

5329. Now what liabilities have you got to meet with those 95 crores, on introducing your gold standard with gold in circulation? Would you give me the headings of the liabilities that have to be met out of that reserve of 95 crores?—Notes to be redeemed, rupees to be redeemed; and at the same time the payment of foreign remittances; these will be the three headings, I think. Redemption of notes, redemption of rupees, and remittances.

5330. In order to weigh to what extent you will require to trench upon your gold reserves, you have to know what amount of rupees are likely to be tendered for conversion?—Yes.

5331. And to estimate that you will have to know how many rupees there are to be converted?—Yes.

5332. Do you not think it is necessary to know that very precisely?—I have said in my statement, when I was giving oral evidence, that the latest estimate of the rupee circulation is not with me and therefore I could not give that in the memorandum to form an estimate.

5333. How then do you come to the conclusion that 95 crores would be sufficient?—As I said, there are 75 crores in the reserves in London; there is another sum of 20 crores in the form of gold reserve in India, giving a total of 95: with a two years' interim which will bring in more gold, I said that at tho rate of 25 crores I take it to be 50 crores; so that in all it would be 145 crores, not 95 crores.

5334. Let us take your figure of 145: why do you say that that will be sufficient, if you do not know the number of rupee coins that may be presented for conversion?—We have got the estimate of 1911 or 1912, I think, so far as that estimate is concerned. That will be more issue for the present, and therefore it will be merely a vague statement, even if we make any rough estimate on the basis of the estimate of 1911, because so much more money has been coined after that.

5335. But we have to make an estimate to-day?—Yes, of course you have to.

5336. It is a very responsible task to undertake to promise to convert your token currency into gold and not be prepared for that, and therefore we should like to get enlightenment as to the amount of reserves that will have to be accumulated before you can undertake that?—I had made an estimate of that; unfortunately it is not with me just now; it was an estimate from the year 1850 to 1925 of how much silver has been imported into the country, and giving a 5 per cent. depreciation on it per annum, not one or two per cent. as is done in other countries (I shall give the reasons for that later if you want); but on that depreciation of 5 per cent. per annum we come to a certain figure, that in 1924 we have got so much silver in the country and some of it must be in the form of bullion while the other must be in the form of rupees. In that case

I take it half and half, that is to say, roughly speaking, half in the shape of bullion and half in the shape of rupees. I made out that estimate and I shall send it as supplementary information if you want it.

5337. Yes, that will be most valuable, but I do not quite appreciate your point that you have to reckon 5 per cent. depreciation per annum: you mean 5 per cent. of the rupee coin in circulation?—Not rupee coin: silver imported into the country is what I am saying. 5 per cent. is the consumption per year, consumption in the weight, which is wasted and goes out of existence.

5338. Five per cent?—Well, I will give my reasons for that. In other countries we know that the wear and tear is taken at one to two per cent.

5339. I am not aware of the figures?—One to two per cent. is the wear and tear of currency so far as rupees are concerned. I am here talking of the consumption of silver imported into the country and therefore finding out how much stock of silver there is in the country.

5340. You mean actual loss or disappearance?—Yes.

5341. So that, putting it in a different way, silver disappears completely in twenty years?—Yes, according to me.

5342. The silver which has been imported into this country disappears in twenty years?—That is my view; I will give my reasons: The wear and tear of coin of course is quite well known. But we are using silver as well as gold for medicinal purposes, as well as for plates and ornaments. A very large amount of gold is consumed in the shape of ornaments; and these ornaments and plates are melted and re-melted; fashions are changing very often; the women-folk are not satisfied with the old ornaments and they have new ornaments made and therefore there is in that way a great deal of wear and tear. You will find that from the year 1851 to 1900, nine-tenths of the silver that was imported into the country was coined, and passed through the mints. In that case it seems to us that one-tenth has been used in the shape of bullion, that is, for medicinal purposes, ornaments, etc. But it also appears that rupees were used for ornamental purposes. There is therefore of course a great deal of depreciation or loss of silver when we use it as ornaments and plate. The higher classes are using silver in the shape of plates, cups and saucers and other things such as hookahs, etc. For medicinal purposes also we are using silver and gold which means a good deal of consumption. Therefore taking all these things into account I think there is a great loss and that is why I have fixed the rate of depreciation at 5 per cent. instead of 2 per cent. for wear and tear.

5343. (*Chairman.*) You referred to the basis of an estimate which you had compiled. If it is convenient to you to let the Commission have it in the form of a supplementary memorandum it will no doubt be of interest to them?—I shall do so.

5344. (*Chairman.*) On behalf of my colleagues I must express our thanks for the very full assistance you have given us this morning.

(*The witness withdrew.*)

Mr. J. A. WADIA, called and examined.

5345. (*Chairman*).—Mr. Jamsetji Ardaseer Wadia, you have been kind enough to come and help the Commission this afternoon, and you have also been good enough to provide us with a very full memorandum* of your preliminary views on the questions submitted to us for reference. Let me ask you, just for the sake of our record, in the first place, from what aspect you view these questions, from the point of view of the business man or from the point of view of the student?—More in the interest of India as a whole, not my personal interest. From the point of view of my personal interest, I would favour a very high exchange.

5346. But your actual experience has been that of a man of business?—Yes.

5347. Engaged in business in Bombay?—In the manufacturing business in Bombay.

5348. In the cotton trade?—Yes.

5349. From the point of view of a manufacturer or merchant?—No, I have been a promoter and Director of about 12 or 13 companies, having about 12,000 looms under their control.

5350. I propose to ask you a few questions to elucidate the opinions expressed in your memorandum rather with a view to seeing where particular emphasis is to be laid and of clearing up any points that seem to require clearing up?—Yes, Sir.

5351. In the first place, there is a very interesting point of view expressed in your memorandum that there are advantages in the free coinage of silver. This is summarised in the last paragraph of your memorandum, in which you say:—"If that (*i.e.*, gold currency) is not allowed to us on account of the monetary interests of London, then I would prefer an open mint to silver. Silver or gold currency must be honest"?—I say that.

5352. In the event of it being for any reason impossible for India to obtain a full gold standard with a gold currency, to all other systems you would prefer the free coinage of silver?—Impossible for what reason?

5353. Is it relevant to ask from what point of view it is impossible?—Then, what I say is if that is not allowed to us, I prefer altogether a silver currency. If you had not closed the mints, I would have been happy. That was the mistake made. Now that there is a possibiity of our having a gold currency, let us have an honest gold currency. If you cannot do that.

5354. The question I ask you as having a special individual interest and which you might enlighten the Commission upon is, what you think would be the effect, firstly, upon the trade and commerce of India, secondly, upon the standard of living and the prosperity of the Indian people as a whole, of a restoration of the free coinage of silver?—My ideal is this, that if we are to open the mints to-day, of course prices would be affected but not to that extent as you expect. You will see from the figures I have given you—they have been taken from the official figures— that when the mints were open and when your exchange was 23d. to the rupee and when it fell to 13d. to the rupee, food prices in India were practically not affected. These figures show that, and there is also the evidence tendered by Sir Anthony Macdonnell before the Fowler Committee to show that the internal prices were not affected. I have got his opinion in my pocket. I took it from his evidence before the Fowler Committee, and he says that the internal prices in India were not affected although the rupee in relation to gold fell from 23d. to 13d. I have just taken it down.

5355. When was this?—Before the Fowler Committee. "Apart from the dislocation caused by famine and bad seasons, the purchasing power of the rupee has remained pretty steady. There have been local variations, of course, owing to scarcity and so on, but apart from this the purchasing power of the rupee has remained steady from the middle of 1886 to the middle of 1896. In 1886 exchange was 1s. 6d. and then it went down as low as 1s. 1d. in 1894. In the 10 years from 1885 to 1895 it has had but very little influence." These are his own words which I have taken from his printed evidence.

* Appendix No. 27.

5356. What in your opinion was the reason why the Indian mints were closed to the free coinage of rupees?—It was absurd. The opinion was that the Government said, "we were not able to make both ends meet," and yet at 13d. they had a surplus in 1895 after closing the mints. Now you are taking from the country 45 crores more of direct taxation, that is, the Imperial Government, and I believe 45 crores from indirect taxes like the enhancement of railway charges and so on, and yet you are at wit's end.

5357. It was a fact, was it not, that during the last 20 years during which the mints were open to the free coinage of rupees there was a steady decline in the exchange value of the rupee?—Yes, which affected nobody but the English officials in this country who wanted to remit money home.

5358. Had that no effect on Indian trade?—It was expanding. If I, as a producer, for one sovereign pound of my cotton or wheat selling in the neutral markets of the world for one pound in 1873 got Rs. 11, and if in 1895 I got at the rate of 13d. Rs. 19, the country did not suffer—I did not suffer as a producer. I got more rupees. The Government of India in their report to the Home Government in 1886 acknowledged that. You will find that in the quotation from the Blue book. They said that the producers of the country benefited, they said that in plain words.

5359. You understand that if I ask questions intending, as it were, to examine the bases of your opinion it is only in order to reveal the opinion in its strongest form and that it does not imply any particular assumptions on the part of the questioner. I rather gather from what you say that you look upon the circumstance that there was a steady fall in the exchange value of the rupee as on the whole by no means detrimental to Indian trade?—Certainly not, the Government of India acknowledged it themselves in their despatch in 1886.

5360. Then would it follow from that logically that you look upon a continued fall in the exchange value of the rupee as conferring fresh and continuous benefits to India trade?—Well, there cannot be a continuous fall. There must be a limit. All I say is that you depreciated it artificially; that is a different thing.

5361. Where would you put the limit?—I do not know where I would put it. It is for the workers in the mines, it is the capacity of the mines. I could not tell you what the capacity and what the consumption would be. I say that India did not suffer by the mints being kept open for the free coinage of silver. The Government of India was inconvenienced for the time being, but beyond that inconvenience there was nothing to show that the Government of India or the Home Government were justified in interfering with our currency, and after interfering with it giving us neither gold nor silver. They destroyed our natural currency and they gave us nothing and for 33 years we have been fumbling about.

5362. You recognise that, with the free coinage of silver, if and so far as the market price of silver falls, exchange falls?—Yes.

5363. If and when exchange falls, I gather your opinion is that it is rather beneficial than otherwise?—Of course it is, and it is not detrimental to the import trade. If I make more rupees, I am able to buy more. But now what happens? Supposing the market price of silver rises, of course the exchange will rise, like the market price of any other article.

5364. If it is beneficial to India that the exchange should fall, is it detrimental to India that it should rise?—If it rises through natural causes, it would not be detrimental because the whole world will be on the same basis. All the silver-using countries will be in the same condition.

5365. We then arrive at the circumstance that the benefits are equal to India whether exchange rises or falls?—I do not think so. I think India is in a very peculiar position. The producer benefits by the fall, and if you raise the exchange the producer suffers, but if it rises through natural causes, of course there is nothing to be said. It is like the rise and fall of cotton or any other commodity or gold. Gold has appreciated and depreciated.

5366. You recognise, do you not, that as a standard of value silver is more variable than gold?—Silver, as far as the purchasing power of the coin was concerned, was a better metal than gold any day, until you closed the mints. As I show you, with silver at 23d. to the rupee and with silver at 13d. to the rupee, the purchasing power internally was not affected. Of course if I bought a bottle of champagne it would be different, but the internal prices as revealed by our own Blue book tell a different tale.

5367. Taking it in general, you do not see any disadvantage to India, either from the point of view of commerce or from the point of view of the economic advantages of the Indian people, that their standard of values should be one that would vary with the market price of silver?—I do not see any disadvantage at all. In fact that is the opinion; if you will read clause 34 of the last Babington-Smith Committee's Report they say that silver-using countries have prospered and can prosper with a fluctuating exchange; in clause 34 of their findings they say that. That is not my opinion, that is the opinion of the Babington-Smith Committee.

5368. I suppose the object with which the recommendation in the report of the Babington-Smith Committee was founded was, if it was anything intelligible, to establish the exchange value of the rupee at such a level that it would be independent of variations in the silver market? Was not that the object of their recommendation of the two shilling ratio?—I do not know what their object was; it was a very foolish thing, whatever it was. To try and stabilize the rupee in relation to gold when the whole world was topsy-turvy was one of the most curious things one could think of on the part of the Government of India. I believe, if you will allow me freedom of speech, the Government of India wanted a high fixity, and they thought, silver being high, of screwing up the rupee. That was what I think they aimed at in their heart of hearts. Of course they have failed.

5369. You refer to the Babington-Smith Committe's Report as supporting your contention as regards the relation between the price of silver and the standard of value in this country. Is it not the case that, whether ill-advised or well-advised, the object of that Commission in its Report was to select such a ratio for the silver rupee as to make its token value independent of the variations in the price of silver?—I suppose so, that they had that in view.

5370. So on the whole it shows that they were not adherents of that opinion which you express?—I do not express it, they express it in clause 34. Kindly do not attribute that opinion to me. I think they were quite right in their opinion.

5371. You recognize that by linking the rupee currency to the price of silver by permitting free currency, it would result in the circumstance that the exchange value of the rupee, and in consequence Indian prices, would vary with the silver market?—Yes, partly, not wholly; I have again stated that the silver fell to 13d. The internal prices were not affected. I have given the figures from the Blue books and I have quoted the opinion of a prominent member of the Fowler Committee and I cannot say anything more.

5372. Let me ask you one or two more elucidatory questions upon your memorandum. In quoting the Treasury, in the first paragraph of your memorandum, you say: "The proposal—(that is for closing the mints)—appears open to those objections to a token currency which have long been recognised by all civilised nations, viz., that instead of being automatic it must be managed by the Government and that any such management not only fails to keep a token

currency at par but exposes the Government which undertakes it to very serious difficulties and temptations." That of course was written before the event, was it not? If one looks back at the history of the rupee after the closing of the mints, did this policy, as a matter of fact, result in a failure to keep the token currency at par or did it not ultimately result in a substantial stabilisation of the rupee round about 1s. 4d.?—Yes; you succeeded in stabilising the rupee at 1s. 4d.; you also succeeded in destroying the purchasing power of the rupee internally. Because you will see from the figures that your food grain prices went up by leaps and bounds owing to your inflation and token currency. You destroyed our natural currency and you gave us token currency with the gold standard as you chose to call it and the result was that the food grain prices which were 114 in 1894, 117 in 1902 rose up to 199 in 1913 and 222 in 1914; but the English prices showed no such fluctuation. I have given you the English prices as well.

5373. When the mints were closed to the coinage of the rupee, that was followed by a period during which the Government made no further issue of rupees?—Exactly so; consequently there was no fluctuation in the price of food grains; they only rose from 114 in 1894 to 117 in 1904. Then you began to coin your token currency at high pressure and the prices began to rise.

5374. I am examining the effect of the closure of the mints from the figures which you have given us. I understood from your argument that there was no conceivable relation between the closure of the mint and the exchange. Is that not so?—No. What I say is that when you closed the mint and stopped the coinage, the prices were not affected except with a very narrow limit. Then you began to coin between 1900 and 1904 and you coined 50 crores of rupees. The country having been starved all these years of coinage, the currency was required. After that the prices were affected. My point is that you attained the stability. In exchange you destroyed the stability in prices. The result of all our present trouble was the destruction of stability in prices. We were obliged to pay higher wages. Higher wages means higher cost of production and higher cost of production means our inability to compete.

5375. But this is, I understand, subsequent to the date of which you complain against the currency authority in India and not the necessary and inevitable consequence of the closure of the mint?—I do not know; but by the way in which you closed the mint, you destroyed the internal economy.

5376. Have you calculated what would have been the effect of keeping the mints open?—I can only say that your exchange fell from 23d. to 13d. and your internal prices were not affected.

5377. The question I wanted to ask was this: Have you been able to calculate at all by means of reference to the actual price of silver in the market what would have been the effect if you had kept the mints open?—I cannot tell; what the price would have been if the mints had not closed it is impossible for me or any human being to predict because you have stopped the consumption of silver and the silver fell very low. What it would have been if the mints had been kept open at present, is the price of the rupee would have been 13d. I can tell you that. But it went much lower.

5378. If I may refer to the second paragraph of your memorandum, you quote an extract from the "Statist," a London Newspaper: "If the purchasing power of the rupee were raised by 20 per cent.,"—(this is at the time of the closure of the mints) "land tax and other taxes payable to the Government would likewise be raised"—(they were contemplating the possibilities and the consequences of the closing of the mints)—"so would all debts due at the time the change was made. In other words, every banker, capitalist and usurer would find his property so far as it has been lent out to others increased by 20 per cent." I should like to ask you if you feel able to make any calculation of what would have been the converse possibility if the mint had been kept open to the coinage of rupees?—If the mint had been kept open and we know very well that when the mints were closed and exchange fell from 1s. 4d. to 13d. we had a surplus; but if the mints had been kept open to-day and if silver was 13d. to the rupee, of course we would have required more rupees in taxation; but as it is you are taxing us up to the hilt with your 1s. 4d. You have taken 45 crores per annum from indirect taxation and put up 45 crores in direct taxation. Moreover my opinion is this: that we are a debtor country in one way and in another way a creditor country. But as a debtor country if we owe 20 million pounds or 30 million pounds, what I would call Home charges, to England or any other country in the world, your silver or gold does not affect the country at all. I am supposed to produce in India goods worth 20 or 30 million pounds which would sell in the neutral markets of the world. My exchange, either 1s. to the rupee or 2s. to the rupee would not be affected. I have got to produce goods. They would not recognise whether your rupee is 14d. or 16d. or 18d. The Government of India would be inconvenienced for the time being. But beyond that inconvenience and that has been acknowledged by the Government of India report in 1886, the people at large are benefited. I am sorry I have not got the quotation here. But I can give you the opinion of Sir Robert Griffin as to what the consequences would be in case with an open mint exchange fell and the Government of India were not able to balance their budget. Would you like to hear it?

5379. May I know what is your opinion?—I agree with him.

5380. If you agree with the opinion I am sure it will be of interest to the Commission?—I agree with him. We are giving our produce which in the neutral markets are valued at 20 or 30 million pounds. If you call a rupee 1s. or 2s. Government takes so much more money or so much more produce out of the pockets of the people.

5381. If I follow the point you are at present emphasising it is this; that the actual level of the exchange, when you consider India from the point of view of a debtor, is insignificant because the actual amount of its sterling debt has to be settled by the sterling market?—Yes.

5382. That is an opinion which the Commission is interested to hear, as it is different from other evidence we have heard to-day. Now let us look at it from another point of view. Let us look at it from the point of view of India as a great developing country, with great needs for fresh capital in order to develop its vast undeveloped resources; in fact I think we agree that one of the greatest of all needs in India is the obtaining of a bountiful supply of fresh capital. From that point of view, do you not lay a certain amount of emphasis upon the necesity of obtaining a reasonable, stable rate of exchange in order to remove from the path of those who are contemplating investment of fresh capital in India any doubts on the subject?—As to stability of exchange, I will tell you right off that it is a convenience.

5383. Convenience?—It is a great convenience; but I am not prepared to sacrifice the country for the purpose of this convenience, in the way in which it has been sacrificed for the last 30 years. If you had when you closed the mints, 1s. 4d. rate and had given us a gold standard and a gold currency as the Fowler Committee intended, the injury to the country would have been greatly reduced. But you never chose to do that and as to your saying about the capital which is required for industrial development, according to our Finance Minister India is rich enough to provide all the capital. He said that only the other day.

5384. Let us envisage that question, which is one of great interest. In your opinion India is sufficient to provide all the capital?—That is what the

Finance Minister says. He said so the other day to some people in Calcutta. He said that we were rich enough to provide all capital.

5385. That is an opinion which you endorse?—I am not prepared to say that. All that I say is this: that if you can give us a low exchange, say 1s. 4d., with a gold currency in a reasonble time, directly you say so, you will be satisfying us. A higher rate like 1s. 6d. I strongly object to.

5386. This is raising another question, is it not? We were thinking at the moment of the question of the relative advantages and disadvantages of the variability of exchange, but you are prepared to express the opinion that a stable exchange is beneficial from the point of view of investing capital?—Yes.

5387. Before I ask you one or two general questions there are a few points upon the memorandum which I want to clear up. You have told us already in your replies that, from the point of view of settling India's sterling debt, the rate of exchange is a matter which is not relevant?—Nothing at all.

5388 That opinion, if I may say so, is in accordance with what is actually considered as economic theory. But now you say in the last paragraph of your memorandum, "I do not see any use of examining this question again, except to squeeze the tax-payer by a high fixity for the benefit of the foreigner." How does that fit in with the opinion which you have just expressed? How does the high fixity squeeze the tax-payer for the benefit of the foreigner more than the low fixity?—It is very easy to account. Say my exchange is 1s. 4d. I have got to produce goods which will sell at 1s. 4d. in the neutral markets of the world. Now you raise the cost to 1s. 6d. I have to produce cotton as much as what it will fetch 1s. 6d. That is, I have to pay you 2d. more in goods; that is where the squeezing comes in.

5389. Then the absolute level of exchange is relevant in considering the burden of the sterling charges?—Of course.

5390. I gather from your last reply that when your mind turns to this paragraph in your memorandum you find that the absolute level of exchange, whether it is 1s. 6d. or 1s. 4d., is relevant as to the raising or the lowering of the burden of India's foreign charges?—Of course. Suppose your mints are open. Suppose you pitch at 1s. 4d. and your exchange goes down to 1s. 2d. There is a loss of 2d. but the loss is only loss to the Government. To the country it is not a loss at all. The country has saved 2d. It has sold less goods. This is a remission of taxation lowering of exchange. I would like to read Sir Robert Griffin on that point, if you would like to hear it. That is a point which the Fowler Committee did not take in very easily. Giving evidence before the Fowler Committee he said: "It (i.e., the fall in exchange) is a remission of taxation in that the community of India does not contribute the produce if the taxes remain the same. Until you make the change the people of India do not contribute the produce. The Government is short of so much produce. But what I say is the people of India have it."

5391. That pronouncement is perhaps not wholly free from obscurity in expression?—No, it is not obscure at all, because if the exchange goes from 1s. 4d. to 1s. 2d. the Government of India is short of cash, say 5 crores worth of produce. The people have it for the time being till you raise your taxation. That is what he means and that is quite clear to me.

5392. You are on the point now, as indeed we both are no doubt, that if you reduce the rate of exchange then the Government of India has got to increase its taxation?—If you have to lower it?

5393. Yes?—Oh yes, of course.

5394. Let us take that point. Supposing you were to effect a reduction of the present rate of exchange from 1s. 6d. as it stands at present in the market to 1s. 4d. Have you estimated what the effect of that would be upon the Budget of the Indian Government?—Yes, they would have to produce more rupees. But what I want to impress upon you is this. It is their meddling with the currency, giving us a token currency and inflating prices, compelling them to pay higher wages to their employees and higher wages mean higher taxes; it is owing to that meddling that they are in this muddle. I am myself in easy circumstances. I used to employ my servant for Rs. 10 a a month, the very man I am paying Rs. 25 to-day. It must be the same with larger employers of labour. If they pay more they must raise more money by taxation. They first inflate the currency; that is reflected in prices; high prices mean high wages and high wages mean high taxation.

5395. The specific evils to which you refer are the evils of inflation by the Government of India?—That is it.

5396. To follow up that line of thought, I understand you recommend the ratio of 1s. 4d.?—1s. 4d. with a gold currency; no more token currency without limit.

5397. In any arrangement as to the final standard of currency, would it in your opinion be possible to return to the ratio of 1s. 4d. from 1s. 6d. without such an increase in the volume of currency medium as would actually be in the nature of a further inflation? I mean, a critic who had been listening to the development of your argument might say you complain of inflation as the greatest of evils; you desire a return to 1s. 4d.; a return to 1s. 4d. is impossible without further inflation?—Why should it be so unless you give us silver. Give us gold, give us a gold currency and there will be no inflation. Your silver is simply a metallic note.

5398. By what steps would you propose to reduce the ratio from 1s. 6d. to 1s. 4d.?—And also gold currency directly? It is possible to do so. The steps should be taken at once without giving anybody any notice. As you closed the mints without giving anybody any notice, reduce the 1s. 6d. ratio to 1s. 4d. without giving anybody any notice. If you give anybody notice they will be gambling; everybody will send money to England at 1s. 6d. and bring it out at 1s. 4d.

5399. What would the practical procedure be?—The same procedure as you adopted in closing the mints. That is to say, declare you will maintain the 1s. 4d. ratio. You maintained it for 20 years and there was no reason why you should have gone to 1s. 6d.

5400. You would declare that the rate is to be 1s. 4d.?—Yes; with gold currency.

5401. I am trying to ascertain how the question of gold currency would affect the rate. You would declare the rate to be 1s. 4d.; then what further steps would you take?—Then you should within as short a time as possible put us on a gold basis; put us on a gold basis at once; and I may tell you one thing: before the Fowler Committee Lord Rothschild was asked what would be the amount of gold required for an effective gold currency and he said 20 million pounds sterling. But then our currency was as regards coinage 130 crores; as regards currency notes it was about 26 crores; so for 130 crores of rupees in effective circulation and 26 crores notes he said we would require 20 million sterling. Now things have changed. You have inflated your currency. Your rupees are supposed to be 235 crores and your currency notes are 180 crores or in that neighbourhood. How much gold you should accumulate before you can declare convertibility it is for you to judge.

5402. That perhaps raises another issue to which I should like to refer in a moment. I am referring to the present state of affairs. Under the present system of purchasing foreign exchange in the market, the ratio stands round about 1s. 6d.; and I am contemplating that your recommendation is adopted. If the Government declares that the ratio is to be round about 1s. 4d. perhaps you might agree that the immediate result of that announcement on the market would be that dealers in exchange would very soon knock the rate down to 1s. 4d.?—Yes, at once.

5403. Supposing no further measures were taken in order to keep the rate there by way of letting out

currency, would the rate be likely to stay there or would it not recover to 1s. 6d. as the result of speculative operations?—No, I do not think it will recover at all. You see you can take the exchange up to anything you like as long as the balance of trade is in India's favour; to 1s. 6d. or even as high as 1s. 8d. because you are the seller of rupees and if I am a banker and I want a crore of rupees I can only come to the Government and say "Give me rupees." Then they will say "We can only give you at 1s. 6d." So long as the balance of trade is in India's favour; you can reduce the balance of trade but you can maintain the rate.

5404. Ultimately the rate will be decided by the relative supply and demand of the two currencies, the internal and external currency?—Yes, if there was no monopoly in the rupee of course it would be; but you have created a monopoly. Suppose you give me a monopoly of salt and say sell salt at 1s. 4d., and then I say I can take it up to 1s. 6d., I can do that; there is a monopoly in a very necessary article and when you have a monopoly you can take the price of the article as high as possible.

5405. Let me ask you to assist us in regard to what your proposals are for the introduction of the gold currency. What measures would you take in order to secure that end?—Accumulate gold, that is all. You have got gold, I believe 40 million pounds is now in the gold exchange standard and you know what your currency is.

5406. You have undoubtedly a certain number of these amounts to which you refer in the reserves; would you accumulate a bigger reserve?—Necessarily. I am only giving you the opinion of Rothschild that 20 millions would be enough at that time. We have to double and treble that and I think we should have 60 million pounds in gold.

5407. How would you accumulate that additional amount, whatever it may be, in the reserves which are required in order to effect the change?—He recommended 20 million pounds to be raised by loan. I do not know how it is to be accumulated; that is more for the Government of India and its expert advisors. If they are going to give us a gold standard and a gold currency they ought to have thought of that.

5408. Undoubtedly the expert advice of the Government of India is a very essential contribution. I hoped perhaps that you might have considered some suggestions?—What suggestions can I make? Here I give you the opinions of some great men who are financial experts. Lord Rothschild also said that the maintenance of the exchange depended upon exports and if you have a high exchange your exports will be interfered with.

5409. Supposing that by some means, advised by the appropriate experts of the Government of India, you have accumulated sufficient reserves to contemplate the obligations of the introduction of the full gold standard, by what measures would you carry out the transition from the present arrangements to a full gold standard and a gold currency?—Well, we were before the War getting enough of gold; enough gold was in circulation; and from the Moral and Material Progress Report for India for 1911-12 you find in one of their paragraphs, I have got the paragraph with me, the Government say that gold is very much appreciated by the people and is more in use than silver. You need not undertake to give gold for 15 rupees but you can go on giving gold as before and when once people know gold is obtainable there will be no hoarding or very little hoarding.

5410. I will come to that question in a moment. In the first place, we have to contemplate making practical recommendations as to what the actual measures should be by which such a change as you suggest should be carried out. I wonder if you could give us any assistance as to that?—I could not give any assistance beyond what I have said.

5411. Finally, on this very interesting point which you have just raised, you told us that gold is very much appreciated by the people of India?—I do not say so. The Government of India say so in their Moral and Material Progress Report. I think I can give you the paragraph. I need not read it out to you. I got it only this morning, although I had read it before. It is at page 167.

5412. What is the document?—The Moral and Material Progress of India: it is a ten-yearly report.

5413. I think it is made annually covering the previous ten years?—Yes.

5414. (*Chairman*): This is for the period ending with 1911-12. It says on page 167 "The net addition to the silver currency was about 61 crores. Excluding currency notes (7·56 crores) the total absorption of currency amounted to over 20 millions sterling in value, the latest estimate of the total number of rupees in circulation being 180 crores, while gold and currency notes may be put at 60 crores each. The figures indicate that during the year the growth of the circulation of silver did not keep pace with the growth of the circulation of gold and currency notes." That is a very interesting comment upon that period.

5415. (*Sir Purshotamdas Thakurdas*): May we know to what period it relates?

5416. (*Chairman*): The ten years ending with 1911-12.

5417. (*Sir Purshotamdas Thakurdas*): In that report, where it talks of "the previous period," it means the period ending 1899-1900?—I could not tell. I copied it verbatim. Perhaps it refers to the ten previous years.

5418. (*Chairman*): The report says that during tho year the growth of the circulation of silver did not keep pace with the growth of the circulation of gold and currency notes: is this in your view the general tendency?—That is what the report says.

5419. That raises, from the point of view of this discussion, a very pertinent and relevant question as to whether the cause of this slight increase in the growth of circulation of silver was the increase in circulation of gold or the increase of circulation of currency notes. Perhaps you can tell us which it was that was increased in circulation. My impression is that it would have been currency notes that increased in circulation?—No, it says both.

5420. It gives us no guide as to which was the predominant factor?—The present tendency in India, when you import treasure, is for more gold than silver. People have more predeliction now for gold.

5421. That is just what I wanted to ask you about. We recognise of course that, since the establishment of the 2s. ratio, it has been impossible for gold to go into circulation?—The 2s. ratio has broken down long ago; it is only on paper that the 2s. ratio exists.

5422. In your opinion has the 2s. ratio no effect upon the question of circulation as between gold and currency notes?—I could not tell that. The 2s. ratio did not last long; it only lasted long enough for the exchange banks to make money and some rich people; that was all; it lasted for their benefit long enough; money was never made more easily.

5423. As regards the general tendency, in your opinion has there been any tendency during the periods in which it has been possible for gold to go into circulation for gold to be accepted in circulation?—Yes; we all like gold: I used it myself; we all like gold.

5424. Can you refer us to any figures which indicate the increase of figures in gold and notes?—I could not tell you; but I think there are Government figures available.

5425. Generally speaking, we have had a good deal of evidence as to what one witness called the impossibility of satisfying the demands of the people of India for gold to keep as a store of value in hoards. Do you agree that there is such a strong and permanent demand on the part of the people of India for gold to be kept, not in circulation, but as a store of value?—Yes; but the Babington-Smith Committee held that they were not importing more gold than was absolutely necessary for their domestic requirements. India is rather a peculiar country; even a poor man, though he may starving, or even without clothes, will have a trinklet; when his

children marry or are engaged or when he takes a wife to himself, there is always a little present of gold or silver.

5426. Is that the principal requirement of India for gold?—Yes; that is their savings and they prefer it very often to the savings bank.

5427. What would be the effect supposing gold was made freely available?—I do not think it will have any effect at all. I think that the Fowler Committee or the Babington-Smith Committee said that if they want gold they will have gold, whether you give them in the shape of gold coin, sovereign or bullion or ornaments; they will have gold.

5428. Finally, two general questions. Have you been able to calculate by what amount it would be necessary to increase the supply of gold in India in order to carry out the recommendations which you make as regards the establishment of a gold currency? —I have told you what the figure given by Lord Rothschild was when your currency was of a certain volume; it would be a matter for calculation; but I think if you once declare your fixity and say that in the course of a very short number of years you will have an effective gold currency, I think you will be able to manage it without much difficulty. The great thing is to give confidence to the people. They have no confidence now. They do not know what you will do. We have had several committees; they all fixed it at 1s. 4d.; and now they find all of a sudden it is raised to 1s. 6d.; and that has been going on for the last thirty-three years. It is rather a sad thing for me to contemplate that in a big country like India with such an enlightened Government, so many committee reports are required.

5429. These are the principal questions which I wanted to ask you in chief. I am very much obliged to you for your replies. Would you be kind enough to deal with any supplementary questions which any of my colleagues may care to ask you on the questions which we have raised, or is there anything you would care to add?—No; I have got nothing to add; but I would like to say one thing, and that is this; I have been sometimes told that a high exchange has been given to us for our benefit, while countries like France and Italy are struggling for fixity and they are very much troubled with the depreciation of their own currency. All that I want to say as to that is that there is no comparison between India and those countries. Their inflation is caused by war circumstances and their not being able to balance their budgets, and their depending upon the printing of notes and creating an inflation artificially. We created that war inflation simply through ignorance. We had a natural currency and it has served us very well. You thought of giving us gold because we were connected with Great Britain and Great Britain was on a gold basis and you thought that it would do us good too. You gave us gold nominally, but we were on a silver basis throughout. When it suited you you called the rupee a token coin; when it suited you you made it a standard coin. What I want to say is that there no comparison.

5430. Let me try and clear that up. When was this difference of policy inaugurated as between calling the rupee a token coin and a standard coin?—It has been called a standard coin all through; it was only a token coin in name; directly you ceased to give us gold it became a standard coin.

5431. When "we" ceased to give gold,—that is Great Britain?—No; the Government of India.

5432. The Government of India ceased to give India gold: what period in the history of Indian currency are you referring to?—After the war; up till 1914 we were all right; we had gold when we wanted.

5433. What is the material difference in present conditions as distinguished from pre-war conditions to which you are referring in that connexion?—We cannot have any gold now; if I was to bring sovereigns you would not give me silver, except at the rate of 10 rupees.

5434. That is the effect of the 2s. ratio?—Yes; I hardly care to think about it; it is only on paper; it ought never to have existed.

5435. I have some difficulty in following that, because I understand you to say, almost in the same answer, that the 2s. ratio is negligible and has no effect, and that the 2s. ratio was also, as it were, effecting some substantial change between the pre-war and the post-war system. The 2s. ratio is effective, is it not, in preventing gold from going into circulation?—Yes.

5436. Is that a circumstance in the present currency conditions which seems to you to stand in the most urgent need of rectification?—Yes; a low fixity and an effective gold currency; I think both are necessary; if you give us fixity and even a low fixity, and keep it on the old system of a token currency such as you want, I do not think that it will answer our purpose. Token currency is liable to inflation. Token currency must be a limited quantity, not an unlimited one.

5437. Let me ask you your view upon that. In your opinion the pre-war and the existing system with the rupee as a token coin is a system which is liable to inflation?—Yes.

5438. I gather that in your opinion a system of gold currency would be less liable to inflation?—The figures that I have given there show that your food grain prices were subject to inflation while the Statist says there is a very slight rise.

5439. Could you assist us by pointing out the relevant conditions in a currency system which has gold in circulation which make it less liable to inflation than, shall we say, a gold exchange standard system?—I could not tell that. Naturally I think the gold currency would be an automatic currency; it would not be liable to inflation; there would be no temptation to buy the rupee at 10d. and sell it to the public at 16d. or 18d. You must remember that the Government of India gathered 40 millions in the gold standard by its sweating the people, selling them a 10d. rupee at 16d. That they will not be able to do with a gold currency. There will be no sweating. It is a very refined way of getting money.

5440. What period in the history of currency has that reference to?—After the closing of the mints and the minting of the coins, a ten-penny rupee was sold to the public for 16 pence and you accumulated a reserve of 40 million pounds. I think the country must have lost 400 millions. The 40 millions did not drop from the skies in the lap of the Government of India.

5441. You mean the gold standard reserve?—Yes, the 40 millions of the gold standard reserve. That was from sweating the rupee, buying at 10 pence and selling at 16 pence.

5442. Where did those transactions take place?—I don't know, by minting and giving at 16 pence a coin which cost the Government 10 pence.

5443. The profit on that transaction appeared in the form of the gold standard reserve?—Exactly so, but a profit of 40 million pounds sterling to Government must inflict a loss on the producer—I don't know how many times more.

5444. I should expect, following upon the basis of the opinions which you express, that you would say that the gold standard reserve served no useful purpose?—It has served this useful purpose that you saved 40 millions for Government and must have inflicted a tremendous loss on the producer and the country by selling him a ten-penny rupee for 16 pence. If you had a gold currency, you would not have been able to make that profit.

5445. Obviously if you had not closed the mint to the coinage of rupees, if you had kept the mint open to the free coinage of rupees, the rupee would be always worth no more than its intrinsic value; there would be no profit?—And the same would have been the case if you had a gold currency. You would have no temptation to coin more rupees and swell your treasury.

5446. (*Chairman.*) Obviously if your standard coin and your coin current is a gold coin, then there is no profit upon putting the coin into circulation. Are there any supplementary questions on the subjects which we have been discussing?

5447. (*Sir Alexander Murray.*) Mr. Wadia, the tenor of your statement is that the Indian Government has missed no opportunity to fix the rupee at a high rate, and in proof of that statement in the opening paragraph you refer us to the correspondence which passed in 1879. But as a matter of fact that correspondence deals with a bigger question than that really. It was the question of establishing a gold standard in India which was at stake at the time, was it not?—Yes, but at a higher figure evidently and they wanted it even before the Herschell Committee.

5448. We are now talking, Mr. Wadia, about 1879. Now is it not the case that for about 20 years before that or longer the rupee was at two shillings and Government, in suggesting that the rupee should be restored to the two shilling basis, was merely asking for the continuance of the practice of the preceding twenty years?—Yes, they might do that even to-day.

5449. But you say they have always been wanting to. —Yes, the very letter of the Lords of the Treasury indicates that the object of the Government of India is to fix the rupee at a higher figure and to squeeze the tax-payers.

5450. No, no. The point is this. The rupee for 20 years had been at two shillings; at the time that the correspondence was passing it had dropped to 1s. 9d. and all that the Government was wanting was that the gold standard should be introduced on the basis of two shillings. Therefore, they were not asking a very unreasonable thing in view of the fact that the figure had stood for twenty years at two shillings?—That does not matter.

5451. Then the fact that the rupee has stood at 1s. 4d. does not matter now?—No, that is an artificial rate, but it is a better rate than 1s. 6d. just as 1s. 6d would be better than 1s. 8d. and 1s. 8d. better than two shillings, as far the the country is concerned and as far as the producer is concerned. For well-to-do people like myself, I think the higher the exchange the better it is. I want it at two shillings. If you can call the rupee a pound I would not mind.

5452. But the point I wanted to make was that arising out of your statement.—Yes, but the very fact that even before the Herschell Committee they wanted 1s. 6d.—

5453. But you agree with me that in 1879 it was not unreasonable to ask for two shillings?—I don't think that with reference to currency the Government of India has ever asked anything that has been reasonable.

5454. All right. Let us come down to later times?—This is the result that, after 33 years a great country like this, a great Government like yours,—and I have great admiration for your Government—have not even found a proper rate.

5455. Let us come down to the Herschell Committee in 1893. You say that the Government of India wanted to fix the rupee at 1s. 6d. but that the Herschell Committee refused and made it 1s. 4d.?—Yes.

5456. Now, that is hardly a correct statement of the case, either. What the Government of India wanted to do at that time was to close the mints to the free coinage of silver and to declare the sovereign legal tender at a rate not exceeding 1s. 6d. They didn't say that it should be 1s. 5d. or 1s. 4d. or 1s. 3d. or 1s. 2d. All they said was that the rate should not exceed 1s. 6d. Is that not the case?—No, that is not correct. They wanted 1s. 6d. and if you will read my quotation you will see that they say they will not give 1s. 6d. which the Government of India wants, they think it is better to give 1s. 4d.

5457. May I read one or two quotations? In paragraph 65 of the Herschell Report, it says: "The Government of India, however, add the proposal to make English sovereigns legal tender at a ratio which is not to exceed 1s. 6d." That is what they asked for. And do you know why the Committee did not agree to the 1s. 6d. They wanted stability to start with?—Yes, but here is the quotation from paragraph 135 which I give in my printed memorandum. "The Herschell Committee reluctantly consented." They were not very keen on losing the mints either. They said the Government of India declare bankruptcy, so they——

5458. With all due deference, Mr. Wadia, they did not do that?—If you can give me the Herschell Committee's Report, I will find it out for you.

5459. But the point I want to make is that the Government of India did not ask for 1s. 6d. They only suggested a rate not exceeding 1s. 6d.?—Well, it may be; it is a very immaterial point.

5460. But you said the Herschell Committee had fixed it at 1s. 4d. What they actually said was, let us start on the basis of 1s. 4d.?—Look here, Sir, this is the passage I was trying to get:—They however would not fix the rupee at 1s. 6d. as demanded by the Government of India but fixed it at 1s. 4d. Clause 135 of the report of the Herschell Committee runs as follows: "It is impossible in view of these considerations not to come to the conclusion that to close the mints for the purpose of raising the value of the rupee is open to much more serious objection (the objection is there—I want to stress that point) than to do so for the purpose of preventing a further fall." So the closing of the mint is open to serious objection.

5461. May I read paragraph 151? It shows there what the Committee said, viz.:—"It would not of course be essential to the plan that the ratio should never be fixed above 1s. 4d." That is what the Committee said?—Well I have quoted the clause under inverted commas.

5462. Then Sir David Barbour and also His Excellency, the Viceroy, when the legislation was going through, pointed out that it was only a tentative and provisional measure?—I have read the clause of the Herschell Committee's Report which says that the one was not so serious as the other.

5463. Well, now, coming down to the question of prices, you give in your statement a list of price levels?—Yes, Sir, they are the official figures.

5464. You actually say "the Government of India commenced to coin rupees on and after 1900, and the flooding of the country with token currency had disastrous effects on its economic life." Then you proceed to give prices of food grains since 1894. Is it necessary to go back to 1894? Why not from 1900?—Well I have given it to you from 1904. What I wanted to convey was this that, between 1894 and 1904, there was no difference in the prices of commodities.

5465. Oh yes, there was a very great fluctuation?—Between years, I know that, but they are not being considered. 1900-2 was a famine year and I thought it would be very unfair to give that as a criterion. But I have given it to you from 1904 to 1914 year by year.

5466. We will take 1904. Now, 1894 is the lowest year between 1890 and 1904. Why did you take the very lowest year?—You commenced to coin in 1900. You coined 50 crores of rupees. It had no effect on prices. I took 1904 as the proper year showing a slight rise in 1904 and after that I took it year by year. You were then coining year after year large amounts of rupees. You were selling to the country 10 penny rupees for 16 pence and accumulating what you are now pleased to call the gold standard reserve. It didn't come from the skies.

5467. You give your figures. May I give the actual figures too. I agree that there was practically no coinage of rupees between 1894 and 1900, yet the retail prices of food grains rose steadily from 114 to 120, 155 and 209 in 1897; when there was no coinage going on at all?—You are forgetting very important things when you speak of those years. 1896 was that terrible famine year. 1900 was another terrible famine year. And your legislation and closing of the mints helped

to kill people by millions; for rupees which had cost them a hundred and six for 100 tolas realised only Rs. 60 as bullion.

5468. It was not the expansion of the currency that was responsible then for the increase in prices, because between 1900 and 1904 I think you said there was something like 50 crores of rupees coined. Now, in these four or five years, the prices of food grains fell from 192 to 157 to 141 to 126 and to 117?—Yes, because you had taken the high prices of the famine year. 1900 was a famine year and the effects of famine did not disappear in six months or twelve months. I have been very fair in these figures which I give here, I thought they were very fair to all concerned. I took 1904 and then gave you the figures year by year.

5469. Very well, I have taken 1895?—I have no objection.

5470. The index figure for wholesale prices in India, and general prices at home?—Very well, I have given you Atkinson's figures.

5471. I am taking the other figures?—I may tell you that I attach very great importance to food grain prices. We are not affected by the prices of imported goods; that does not enter into the everyday life of the poorer classes, and that was the reason why I took the food grain prices. But in order not to mislead you I have also given Atkinson's figures which are for imports and exports combined.

5472. You have taken the prices of several food grains and then proceeded to draw conclusions from them. Now the Statist figure, as quoted by you, was in 1905, 72. In 1895 the figure then was 62. The figure for India, general prices, was 104, and the figure for the United States of America for the same year was 94. These are the three figures. Now if we take the index figures in 1913, they were India 143, United Kingdom 85, and the United States of America 132, and if we equate the 1895 figures to a hundred, you find that in 1913 the actual figures worked out to a rise from 100 in the case of India to 137, in the case of the United Kingdom 137, and in the case of the United States of America 140, that is a general rise in prices?—You take exports and imports together. I never attach any importance to import figures. We are affected only by food grain prices in the country.

5473. I am only giving you the figures from 1895 to 1913 to show that general prices rose equally; India, the United Kingdom and the United States of America were all alike in this respect?—I stick to the food grain prices. India is in fact a country where the producers are not the consumers of your commodities, and that was the opinion of two members of the Fowler Committee who said that it is very wrong to suppose that if you make imports cheap the producer is benefited; he does not benefit. The producer is a distinct class, a class apart in India, and to compare English or American figures where you have exports and imports together is misleading as far as this country is concerned.

5474. The consumer in India is a bigger class than the producer?— That may be. But whether bigger or smaller, no country in the world penalizes its producer for the benefit of the consumer. We are the only unique country in the world who are thinking always of the consumer. We should think of the producer first and of the consumer afterwards, but to make it cheap at the expense of the producer is folly No. 1. No country in the world is capable of such a folly.

5475. (*Sir Maneckji Dadabhoy.*) Mr. Wadia, I will put your arguments in a nutshell. I understand you to say that stability is a mere synonym for convenience?—It is a convenience, a great convenience.

5476. You stabilize exchange and you unstabilize internal prices?—The way our currency was worked had that effect. If they had given us gold currency in time and if they had not gone in for a gold exchange standard and the accumulation of 40 million pounds, I think we should not have suffered.

5477. This was the result of a wrong working of the Currency Act?—Yes.

5478. This was a result of a managed currency?—Yes, mismanaged, I call it mismanaged currency.

5479. I am not wrong in inferring from your examination to-day that you are not opposed to stabilization?—Certainly not.

5480. And you recommend the adoption of a ratio of 1s. 4d. immediately?—Yes, because although I would like to do it gradually, you cannot do it because everybody would be sending money abroad and there would be another crisis. It would create a crisis at once, I would not recommend it being done gradually. It should be done at once so that nobody has any chance of sending any money.

5481. Yesterday we had a gentleman here who recommended to us and said, " fix your standard and leave the natural forces to automatically bring down the ratio to 1s. 4d." What is your opinion on that?—Here is the Government of India in possession of the field. They have created a monopoly in the rupee, and when you have a monopoly, you can sell it at any price you like. The Government of India might raise it temporarily if they like to as long as they think that the balance of trade is not affected and as long as the balance of trade in India is in India's favour, whether 25 or 100 crores, you will be able to maintain your high exchange.

5482. Would not this immediate introduction of the lower ratio cause an economic disturbance in the country?—A little. We have seen in recent years exchange at 2s. 11d., we have seen it at 1s. 3d., we have seen it at 1s. 4d., and we are seeing it at 1s. 6d. just now. Of course there is always a disturbance.

5483. You won't mind that?—You have got to do it. They had done it to suit their convenience, why should we not do it for our benefit?

5484. Will you please tell me what effect it would have on existing contracts?—What effect was there on existing contracts when they raised exchange from 1s. 3d. to 1s. 6d. If they benefited in one way, they ought to lose the other way. What effect is it having on the contracts which you have made with your cultivators for 30 years not to disturb their assessments and yet you are making 12½ per cent. more by raising the rate? That is what has become of your contract, not between individuals, but between Government and the ignorant peasant.

5485. You admit that a reversion to 1s. 4d. will cause a deficit in the Government Budget; how do you propose to make up that deficiency, by additional taxation?—I should levy an export duty, because it is 12½ per cent. an export duty at present. That would be simply for the benefit of the Treasury. My own money for instance is raised, with the rise from 1s. 4d. to 1s. 6d., by 12½ per cent, in Europe where I have been spending some money; well I have done nothing to deserve it. I have saved a lot of money like that. The Banks are saving; the Insurance Companies are saving; the steamship Companies are saving through buying their sovereigns at Rs. 13. Well that would be avoided. My contention is that you have got into this mess because you had a managed currency. You inflated prices, the inflation of prices resulted in the inflation of wages, and you had to find more money. If you gave us the natural currency, silver, the inflation would not take place. With 13d. to the rupee, we had a surplus.

5486. By natural silver currency you mean the free coinage of the rupee?—Yes.

5487. Would you now be satisfied with a silver currency provided you have free coinage?—Well, I was satisfied with a silver currency. If you read the Babington-Smith Committee's Report in clause 34 they say that the silver-using countries have prospered as well as the gold-using countries.

5488. (*Sir Henry Strakosch*): Mr. Wadia, I am going to ask you a few questions on a subject which is only indirectly connected with our problem which however seems to me of some importance. You have special experience of industrial development in this part of India, I understand, particularly in the cotton

industry. I wanted to ask you where was the capital for the cotton mills raised, mainly?—In India.

5489. And for the cotton mill industry, the additional capital was also raised in India?—Yes.

5490. And what would you estimate the total amount of money invested in Bombay?—The Bombay figures are 20 crores invested in cotton mills; if you double it, that may be for the whole of India.

5491. How many mills are there round about Bombay?—About 82 to 84.

5492. Will you tell me what occurred soon after the war: were these cotton mills very materially extended in their power of production?—They were not materially extended, but some new mills were projected, and they are now in a very bad way.

5493. And more machinery was added?—Very little. But new mills were projected, and machinery bought at very high prices, and they are being now liquidated. Some of them have gone and some will go.

5494. And of the older established mills, have they increased their capacity?—What has been happening is this. Since you fixed the rate since 1898 at 1s. 4d. we had about 82 mills then. Half the mills were spinning mills; we were spinning for China; they have all disappeared. I think 3 to 5 mills are left. We have all fallen back upon cloth. We found that the fixity of exchange ruined our yarn trade entirely, while the progress which Japan and particularly China have made within recent years has been phenomenal. We have not been able to make that progress at all, and with the exception of the Armistice period of two or three years, our spinning and weaving trade has not been doing well.

5495. Is it correct to say that the cotton mills have been particularly prosperous in the years 1919, 1920, 1921?—Very prosperous.

5496. And they have paid their profits fairly up to the hilt in dividends?—I do not think so. There is no truth in that statement. I think half the profits were divided and half the profits were kept as reserves. The old mills, though not now making very much owing to the bad condition of trade, are financially in a sound position, but the new ones will have to be liquidated.

5497. You say half the profits were divided and the other half were kept in reserve, against depreciation and other accounts? Well then it seems these profits must have been gigantic, some dividend declarations going up to 400 per cent.?—They were gigantic. But this is no use comparing those exceptional, abnormal, times. We are not going to have another big war again in our life time. These are all abnormal results.

5498. Now the cotton industry is doing badly?—Yes; not particularly now, but after this heavy fall in cotton.

5499. But it has been doing very badly?—Yes; I find that they lost for the year 1924. All the Bombay mills have lost money. There is not one mill which has not lost. The industry taken together has lost money.

5500. To what do you ascribe that?—High exchange is one of the causes. High cotton is another. Then high wages. I see that our wages have gone up something like 125 to 150 per cent. and when there was a talk of reducing to 15 they would not consent to it.

5501. Is it correct to say, another witness gave us figures, that the present index figure for wages in the mills is 231, 100 being the pre-war figure?—I believe so; it would be correct.

5502. The general prices are about 160; are they not?—Yes. The general price is 60 or 65 per cent. more. I would not say that the workman is being overpaid or paid fully; because we have not paid for the inflation which has taken place in 1904. . In 1904 the retail food grain prices were 117 and in 1914 they were 222. He did not get much for that.

5503. But surely general prices, or let us say cost of living figures, are the fairer index to take than the food grain prices alone?—Yes; that is the most important item in the poor man's budget.

5504. But the cost of living figures very ably compiled in Bombay should give a good picture of the situation?—Yes; but they do not give you anything before 1914 and I say that there has been rise in food grain prices long before 1914. They were only comparing with the year 1914; but what about food grain prices which rose from 1904 to 1914? I know this Labour Bureau Report.

5505. I see here, for instance, that the cost of living figures converted into gold at the present time in Bombay in rupees is 152, whereas wages are standing at 231. Does not that suggest that wages have risen out of all reason in relation to the cost of living? —Yes, if you compare with the 1914 figure. There has been a rise of 90 per cent. in food grain prices. The correct thing would be for the Labour Bureau to givo you figures from 1904. But what had they given? You have got to add 90 per cent. in food grain prices which has taken place between 1904 and 1914.

5506. You therefore think that wages have very little influence?—Yes; the poor people if you cut their wages and if they could afford to get on, they won't strike; I am not inclined to blame them very much.

5507. If you were to fix your exchange, the purchasing power of your rupee, at 1s. 4d., would that not really have the effect of reducing the wage of the wage earner by 12½ per cent.?—No; if you have your rupee to 1s. and if you go on filling the country with token currency, your food grain prices will rise all the same. Look at the French exchange. It was 25 francs to a pound and it is 131 now.

5508. But that is hardly parallel?—No; but what I say is this; that inflation would never stop unless you have a sound currency.

5509. Let us stick to the point. I wanted to know whether it is not a fact that if the exchange value of the rupee were fixed at 1s. 4d. as compared with the present exchange value of 1s. 6d., there would be a curtailment, with the same level of wages, of the real wage of the wage earner by 12½ per cent.?—You had your exchange at 1s. 4d. between the year 1892 and 1916 and yet your food grains rose by 100 per cent.

5510. But that is not the point if I may say so. To-day commodity prices have adjusted themselves, let us say, to the present 1s. 6d. rate?—There is another thing, let me tell you, as regards commodity prices. Is it export commodity prices or commodity prices of food grains like javari, bajri, etc., which are not exported?

5511. I have taken the cost of living figures which are more appropriate for that particular purpose?—Our exchange will not affect our internal prices of commodities which are not affected by export. There are certain kinds of food grains in India which are produced and consumed in the country itself and not exported. It may affect wheat and other things but it would not affect bajri or javari, large quantities of which are produced and consumed in this country alone.

5512. Do you suggest that the prices of food grains in India are entirely independent of the movement of prices abroad?—Not all food grains prices; for instance, wheat is affected; but bajri, javari would not be affected. They are not exported. To compare India with all the other countries one must be extremely careful This is a country distinct and apart.

5513. But the ordinary laws governing prices apply equally to India; do they not?—No; I would not apply them blindly. It would be a mistake to do so.

5514. But is it not a fact that India imports just about as much as she exports?—No; in the first place that is not correct; but even if she did, the exporters are a different class of people and the importers are a different class and that is not my own opinion but that of two members of the Fowler Committee who signed a minute of dissent and they were quite emphatic on that point. I have got that minute in my pocket but I won't trouble you with reading it.

5515. I think that exhausts my questions on that particular point. I want to refer to a remark which you made, in which you suggested that the Government had been sweating the people by taking away from them the difference between the silver value of the rupee and its exchange value. I do not quite appreciate what the complaint is. Because the difference has been stored up in a reserve which is used for maintaining the exchange value of the rupee. I should like to know what the complaint really is?—The complaint is that when you make one rupee in your reserve, you will lose perhaps 6, 8 or 10. Suppose now you have got Home charges worth 30 million. With 1s. 6d. rate you are saving 12½ per cent. But the 200 millions of exports are affected by that. So when the country loses on 200 millions of exports, you as Government gain on 20 or 30 millions on account of Home charges. That is the complaint.

5516. You, therefore, think that the export trade, by raising the value of the rupee, is suffering?—It is suffering in two ways. You first make it suffer by making the exporter receive only Rs. 13 for his sovereign worth of produce instead of 15 and the other way is that you sell him rupee which costs you 10d. at 16d. and in order to gain one rupee for your Treasury he has got to suffer a loss on the 200 millions which he exports. Not only that, but the articles which he is selling here locally; for instance, you have a crop of 50 lakh bales of cotton half of which is exported; I as a consumer am buying cotton at the same level as export prices. There is no difference in the price of a bale of cotton bought in Liverpool or in Bombay.

5517. Do you suggest that the world price of cotton is influenced in any way if the rupee is worth 1s. 6d. instead of 1s. 4d.?—Yes.

5518. Does not that 1s. 6d. rupee buy proportionately more abroad?—Of course it does.

5519. Or internally?—I do not know about internally. If he were buying a bottle of whisky, of course, it is all right. If the ryot, after selling his quantity of cotton, bought a bottle of champagne or whisky, he would benefit.

5520. We are talking of cotton, not of champagne?—It is the same thing. I want to make the example a little more telling.

5521. Let us stick to cotton. Do you suggest that the price that cotton will fetch in India will be the same whether the external purchasing power of the rupee is 1s. 6d. or 1s. 4d.?—Yes. I will buy more cotton. As a buyer I will benefit; but as a seller I lose.

5522. But then you do not admit that the price adjusts itself?—How? It will adjust itself to your exchange. The price of cotton is not fixed by anything we can do here. It is fixed by America which produces the largest crop in the world. If American prices rise ours will rise. If they fall ours will fall. But if you have the exchange at 2s. to-morrow, of course the cotton will drop gradually. The foreign buyer will not pay you a penny more or less for your commodity except what it can fetch in the neutral markets of the world.

5523. I appreciate that and for that reason I ask you why does the exporter suffer?—Not the exporter; it is a mistake if I said so; it is the producer.

5524. Why does the producer suffer?—Because he is made to receivo Rs. 13 instead of Rs. 15.

5525. But if these Rs. 13 buy as much or as many goods as the Rs. 15, where does he suffer?—If he is buying a bottle of champagne, it is all right. Let me read the opinion of the two English gentlemen, as regards that opinion which you hold.

5526. I am not holding the opinion. I am asking you questions. You said that the people have been sweated by the Government because the reserve has been accumulated. It is true, is it not, that the reserve is still there? It has not been eaten?—No. 40 millions are there. Perhaps the country may have lost 200 millions or 400 millions. As a matter of calculation we must take the exports of all these years and debit with 12½ per cent. and credit with 40 millions.

5527. Well, now look here. You know probably that a great many countries are adopting or have adopted what is commonly called a gold exchange standard?—Yes, but are they sweated?——

5528. I beg your pardon, let me finish—where the chief medium of payment internally is the note. Would you say because the note costs less to print than the rupee coin, that the people have been sweated to a more cruel extent than the people of India?—No. Other countries are not sweating their sovereign or gold.

5529. But if they issue notes and accumulate reserves for the proceeds? Taking your own analogy they have been sweated increasingly to the tune of the difference between the price of the silver which is contained in the rupee and the bit of paper which constitutes the bank note?—The paper is all right. There is metallic reserve behind its back. You can have the gold metallic reserve. Instead we have the silver notes. That is the difference. Your rupee is a silver note; so you have got against your currency notes, silver notes. You have not got *pucca* reserve, because you want to sweat the rupee. I never heard of any civilised and highly organised country doing what you have been doing in India for the last 30 years.

5530. Well, then, I submit that destroys your argument. But I wanted to point out to you that it is exactly the same thing that has been happening all over the world. In the best regulated countries notes were circulated which cost very little to print and reserves were placed against them. In India you have had notes with reserves placed against them, and you have silver coins?—These are silver notes; they are notes, one note against another.

5531. Therefore you absolutely disagree with Ricardo as regards the desirability of having a currency which is internally inconvertible and externally freely convertible into gold. He describes it as the ideal currency and a currency of the greatest economy?—Yes, I think a note is a very ideal form of currency but keep a stock of gold against it; you are keeping a stock of silver notes.

5532. Therefore you would be content if the silver notes, rupees, were taken out of circulation and notes printed on paper put in their place, provided that proper reserves are established against them?—Yes, in gold.

5533. What percentage do you think you will require in your reserves?—I have already told you that for a certain number of coins and currency notes Lord Rothschild estimaed £20 millions. I think on the present basis we should have 60 to 70 millions.

5534. What percentage of gold would you require?—50 per cent.

5535. Therefore I may take it that you would be content with a note currency in this country which is backed up to 50 per cent. by gold?—Yes.

5536. And silver as token currency? And silver completely as token currency. In other words you would be content with a gold exchange standard on those lines?—A gold exchange standard with a gold currency; not merely the gold exchange standard as it has been advised.

5537. You insist, in addition to the notes, upon gold coin being in circulation?—Not necessarily in circulation. I would not encourage the circulation of gold; in 1911 I was in France and when I paid fifty pounds in British gold they would not give me the equivalent in French gold; in fact they gave me a lot of trouble.

5538. You would not be content to have notes circulating as the only medium?—But there is this difference between our country and France. Our people are used to metallic currency. If they want silver it ought to be given; but of late everybody is using gold and has got a liking for gold.

5539. But you would not necessarily give gold in place of silver?—I would not encourage it.

5540. You would have the silver coin as token currency provided a proper gold exchange standard is established in this country, and proper provision is made for automatic contraction and expansion. Would you say that the time would then be ripe to reduce the silver rupee to the status of a token coin of limited tender?—As soon as possible.

5541. You do not think that the people would become uneasy or distrustful when you did this?—They are distrustful now of your policy.

5542. Excuse me, it is not our policy; we are not the Government?—When I say you I mean Government.

5543. I am seeking enlightenment as to what is to happen in future. You think it is possible on the introduction of the orthodox gold exchange standard to reduce the silver rupee to a token coin?—That is it.

5544. (*Sir Reginald Mant.*) I think that you are the only witness so far who has suggested the reopening of the Mints for free coinage of silver?—Yes.

5545. Do you think there is a considerable volume of opinion in India in favour of that policy?—No, there is not. They now think that having gone through all the trials and troubles that the sooner you give us the 1s. 4d. rupee with a gold currency the better. That is the general opinion. I myself would prefer it too but if you cannot do that, I should go to silver right off. If you say, we cannot give it to you for reasons which arise out of this country or out of London or England or any other country, then I should go to silver straight away.

5546. Then really the reopening of the Mints is not a question of practical politics?—No, not at present unless you show your helplessness.

5547. (*Sir Purshotamdas Thakurdas.*) Mr. Wadia, you have been taking an interest in these questions regarding currency and the financial policy of the Government of India for at least 40 years?—No, 30 years.

5548. You have been connected with the Bombay mill industry for more than 30 years?—35 years.

5549. Your connection has been in the shape of a substantial hand in starting some mills and in looking after the management of these?—Yes.

5550. I think I am right when I say that for the last 22 years you annually review the Bombay cotton mill industry and its working?—For the last 20 years.

5551. And you have also evinced a very lively interest in the currency policy of the Government of India by continuous contributions to the local press?—Yes, I have.

5552. I would then like your assistance in connection with the effect of the higher ratio of 1s. 6d. on the cotton mill industry as far as the adverse effect of it is concerned?—If imports are cheapened it must affect the industry.

5553. It enables you less to compete. It has been pointed out, and that is where I particularly seek your assistance, that owing to the rise in exchange by 2 pence cotton, raw cotton, which is an important raw material of the industry, required by the industry, is available to you 12½ per cent. lower?—I do not know whether it is so or not. Theoretically it is so.

5554. But you yourself admitted that to Sir Henry Strakosch?—Let me tell you one thing. Exchange is not the only factor which regulates the price of a commodity. Suppose your exchange is low and there is yet a big American crop, your producers will not sell cotton at a high rate, however low the exchange may be. It is only one of the factors.

5555. Taking everything to be normal, in perfectly normal circumstances, with a higher rate of exchange, cotton is lower to the extent of 12½ per cent. with a two pence rise in exchange?—Yes.

5556. Is it correct that 60 per cent. of your cost of production is the cost of cotton?—Yes it is so, in rupees.

5557. Then on 60 per cent. of your cost of production you save 12½ per cent. taking everything else to be normal. It is also contended that 7 per cent. of your cost of production represents the cost of imported stores and machinery parts from abroad?—It may be that.

5558. I give you these figures as given to us by Sir Victor Sassoon who appeared on behalf of the Bombay Millowners' Association. They cannot be very far wrong therefore?—Yes.

5559. You have 12½ per cent. on that 67 per cent., on which you make that saving. Could you by your wide and expert knowledge regarding the cotton mill industry tell us whether you save anything on the 33 per cent. or whether you are adversely affected on the other 33 per cent. by the higher exchange?—I do not think you would save anything on the 33 per cent. What I want to tell you is this. It is often lost sight of that assuming you save on your cotton, assuming you save on your stock, still it is a loss to the manufacturer to have a high exchange and for this reason that when the producer is not getting enough money for his produce, if you benefit to this extent, and I grant that you do benefit, if your producer receives fewer number of rupees, this producer's purchasing capacity for your goods is to that extent less and you have therefore very little benefit.

5560. I therefore want to know if you confirm this that although a higher exchange does benefit the Millowners to the extent of saving 12½ per cent. on 67 per cent. in the cost of production, the Millowner has found, and we cannot have a better representative of the Millowners than you with your 35 years' experience, that a higher exchange in the long run is against the cotton industry and is harmful to it?—It is against the country, not only against the cotton industry.

5561. Will you kindly restrict yourself to my question? It is harmful to the local cotton industry?—Yes, it is.

5562. Now it has been said that the cotton mills paid very high dividends during the boom period?—They did.

5563. You have had 35 years' experience and I take it you have been connected with one mill or another during all these years. Could you tell us, without specifying the mill, what the average return on the last 35 years' investment has been, 6, 5, 7 or 10 per cent.?—It has been very poor; between 1890 and 1900 the late Mr. J. N. Tata had all the mills of the Presidency examined and Mr. B. J. Padshah brought out a pamphlet, a copy of which exists with me and perhaps with the Tata's too, in which it is shown, going over a number of years, 10 years, they found the profits of the mills were about 4 per cent.

5564. That is what I also heard. Could you tell us what your personal experience as an investor has been, taking into account the boom period of extraordinary dividends to which Sir Henry Strakosch referred? What is the average return from 1890 to 1925?—Well, the average would be very low, barely 10 per cent. if you take the boom period.

5565. Including the boom period?—Yes.

5566. So that if the boom period had not come by the coincidence which it did——?—The industry had for generations been a struggling industry.

5567. Now regarding the adjustment that is generally being talked of after the change of ratio from 1s. 4d. to 1s. 6d., do you think, Mr. Wadia, that that adjustment is complete?—Well, of course, I am buying things cheaper if I go to European shops; I must buy cheaper; but what I say is this, that our imports are more or less for the well-to-do classes; they do not affect the poorer classes.

5568. Excuse me; there are two of my colleagues still waiting to ask you questions, and I should like you to answer my questions and nothing more: do you think that the adjustment has been complete as regards the cotton industry?—You know that cotton is affected and your stores are affected, and as to machinery you require machinery once in 20 years.

5569. What about wages, have you had any drop there?—They wanted to reduce them by 15 per cent. but they wouldn't have it.

5570. Now if the 1s. 6d. rate continues, would the industry have to enforce a reduction in wages in order to complete the adjustment?—I do not think you will ever be able to enforce adjustment, because your food grain prices have been high since 1904 and you will have to struggle on with them. I do not see very prosperous times for the industry.

5571. Therefore as the adjustment of wages in the industry is not possible, it will continue as a very bad maladjustment.—I think the situation is practically hopeless.

5572. Mr. Wadia, I was thinking of hereafter. If this state of things continues, you feel that there is no likelihood of an improvement?—Not within a reasonable time.

5573. And the industry will have to struggle on owing to continued maladjustment in wages as far as the 2d. rise is concerned?—Yes.

5574. Then would you kindly refer to the last paragraph of your memorandum? I think you have a printed copy. Then, I would very much like to explain what exactly you mean in the next sentence where you say: "I do not see any use of examining this question again, except to squeeze the tax-payer by a high fixity for the benefit of the foreigner." By the word "foreigner" do you mean the man who exports to India?—I do not mean him alone, but anybody who comes out to this country to make money, whether it is the Government servant or whether it is the banker or broker or ship-owner or engaged in any calling; I mean all those who come out to this country for making money and remitting their profits out of India, people whose faces are set westwards; they are only here for a time.

5575. Did you not at one time (if I mistake not last March) give us some figures of what you thought were remitted out of India by the foreigner trading in this country?—Yes; by these jute mills, tea companies and all that; I believe 50 crores was the sum I mentioned.

5576. You say "It is said that the present high exchange of 1s. 6d. is the result of trade."—I do not say that.

5577. You say that in your written statement?—What I said was that it has been given out that this 1s. 6d. is a natural rate and that because our export trade is booming, therefore it has gone up to Is. 6d. All that I say is: "No, 1s. 6d. is as unnatural a rate as 1s. 4d." I say that the Government is maintaining it at 1s. 6d. because it allows the exchange to go up to 1s. 6d. and then begins to sell rupees, begins to give rupees if you want it.

5578. When you say "the result of trade," what you mean is it is said that the present high exchange of Is. 6d. is the natural result of trade?—It is said so: I do not say so.

5579. Of course you follow it up by saying that it is absurd to think so. I just wanted to ascertain what is meant by the words "the result of trade"; that is all.—They say that exchange is going up, because the export trade is booming and therefore Government and bankers could not help themselves. All that I say is this; that if a banker could bring silver if it was an open mint and get rupees from the mint, there would be no occasion for him to give Government a higher rate. But he is obliged to give a higher rate because he is in want of funds and he must go to Government, the only seller of rupees. Government says: "We will give you at Is. 6d.", and he is bound to buy it.

5580. In fact, you maintain that 1s. 6d. has been made feasible and an actuality by manipulation and not by any natural forces?—Of course; but so is Is. 4d.; with silver at 32d. the natural rate would be 13d. 1s. 4d. is unnatural; 1s .6d. is still more so. What is the banker but a financial bookie who buys and sells at a certain figure? He was buying and selling at 2s. 11d.; he is now buying at 1s. 6d. and selling at 1s. $6\frac{3}{16}$d. He is nothing more.

5581. (*Chairman*.) The Commission is much obliged to you for your very full assistance this afternoon.

(*The witness withdrew*.)

SIXTEENTH DAY.

Tuesday, December 15th, 1925.

PRESENT:

THE RIGHT HON. EDWARD HILTON YOUNG, P.C., D.S.O., D.S.C., M.P. (*Chairman*).

Sir RAJENDRANATH MOOKERJEE, K.C.I.E., K.C.V.O.
Sir NORCOT HASTINGS YEELES WARREN, K.C.I.E.
Sir REGINALD MANT, K.C.I.E., C.S.I.
Sir MANECKJI BYRAMJI DADHABHOY, K.C.I.E.
Sir HENRY STRAKOSCH, K.B.E.
Sir ALEXANDER ROBERTSON MURRAY, C.B.E.
Sir PURSHOTAMDAS THAKURDAS, C.I.E., M.B.E., M.L.A.
Professor JAHANGIR COOVERJEE COYAJEE.
Mr. WILLIAM EDWARD PRESTON.

Mr. G. H. BAXTER (Joint Secretary).

Mr. GORDHANDAS PATEL, called and examined.

5582. (*Chairman*.) Mr. Patel, you are a Bachelor of Arts and the Joint Honorary Secretary of the Ahmedabad Millowners' Association?—Yes.

5583. Your Association has been good enough to supply the Commission with a full memorandum* in which its views are set out, and you are so good as to come here to-day in order to assist us with any questions which may arise upon the memorandum?—Yes.

5584. We understand that you give evidence on behalf of your Association and not personally?—Yes.

5585. I will, if I may, ask you a few questions to ascertain the views of your Association upon those aspects of the memorandum which appear to me to need elucidation. In the first place you are (I say "you" for convenience) of opinion that the time has

* Appendix No. 28.

come to take measures for the stabilisation of the currency?—Yes.

5586. And you arrive at the conclusion that the best way to achieve internal price stability is to secure stability in terms of gold?—Yes.

5587. The arguments in the memorandum appear to point to the conclusion that, if the rate were now standing round about 1s. 4d., it certainly ought not to be raised to 1s. 6d. I do not quite follow at first sight how your arguments lead to the conclusion that, it being now, as we know, round about 1s. 6d., it should be lowered to 1s. 4d. What are the considerations that lead you to that conclusion?—The introduction of the gold standard in this country has not been made and it is due to that that the exchange remains higher.

5588. But the exchange was at 1s. 4d. before the War without a gold standard, was it not?—Yes, but at that time we were nearer to the gold standard exchange system than we are to-day.

5589. I understand it was because the entry of gold into circulation was prevented by the artificial two-shilling ratio. Is that what is in your mind?—That was after 1919.

5590. Yes?—But I am talking of 1917.

5591. Supposing that the Government of India were to come to the conclusion that the rate should be 1s. 4d. and not 1s. 6d., what measures would, in your opinion, be necessary in order to attain that rate?—First they should introduce the gold standard and secondly a gold currency in this country, as in England, and then the exchange would be stabilised automatically by the inflow and outflow of exports and imports in this country.

5592. To avoid all possibility of misconception, you refer to a gold currency as in England?—Yes.

5593. But, in fact, has England got a gold currency now?—No. Gradually, as more confidence has been developed, the gold notes and other currency are being circulated while the gold has to be stored up there. That is at the end of a long career and long confidence in the minds of the people. In the initial stages in India we want a gold currency and a gold standard, and after the stabilisation of this system for about ten or fifteen years, we will be practically just in the same position as England is to-day.

5594. Would you assist us to understand how the introduction of the currency system which you recommend would result in a reduction of the rate to 1s. 6d. without further measures?—Exchange is rather fixed by exports and imports between the different countries. So, in that case, when India requires more money from outside countries it would get more gold. Or, if there is gold currency here, in that case gold will be in greater circulation and the exchange will be stabilised at 1s. 4d.

5595. I do not quite follow at the moment why the entry of gold into circulation would achieve that result. As far as we know at present, if gold went into circulation it would be in substitution for something else, other things being equal, would it not? —Yes.

5596. And it would result in no increase in the currency medium. Why then should it have an effect upon the rate of exchange?—Because other countries in that case, if they have to send money to India may send actually gold, which is not practicable at present. Or India may send gold to them, gold being available in larger quantities than the requirements of this country.

5597. At any rate, I understand your Association would recommend no more active steps to reduce the rate to 1s. 4d. than those changes in the currency system as regards the position of gold which they recommend?—There are other active steps, as, for example, the judicious selling of council bills.

5598. The judicious selling of council bills in London?—Yes.

5599. Against rupees in India?—Yes.

5600. What do you mean by "judicious" in that connection?—Council bills ought to be sold to that extent to which they are actually required under the budgeted estimates. Any further advance beyond that limit would rather act contrary to the interests of the country as well as create great fluctuations in the rate of exchange.

5601. When you mention that in this connection do you mean that the sale of council bills is to be made for the purpose of reducing the rate of exchange?—Want of judicious sale in regard to council bills affects the exchange; that is what I mean to say.

5602. You would use the sale of council bills in order to promote the reduction of the exchange?—Yes.

5603. That would be reducing the exchange by increasing the internal currency in India, would it not, otherwise it would have no effect on the exchange?—Not increasing the internal currency in the form of token coins, but in the form of gold standard coins.

5604. What do you contemplate then should be the operation, that council bills should be sold in India, with what, with notes?—With gold notes or gold coins.

5605. Whatever the form, if it is to have any effect in reducing the rate of exchange, it must be by increasing the proportion of the currency?—Yes.

5606. That being so, that will have an effect on prices in India, will it not?—Yes.

5607. What will be the result on Indian prices?—Prices will be stabilised and they will be lowered to a certain extent.

5608. Does it tend to stabilise prices if you increase the proportion of the currency in the country, or does it not rather tend to a rise in prices?—If you increase the currency with a gold standard and gold coins, then it will bring the prices to stabilisation point.

5609. If it has no effect on prices, how can it affect exchange?—It will have an effect on prices.

5610. What would that effect be? Would it raise prices?—I think it will be to lower prices gradually.

5611. By increasing the relative amount of currency you would lower prices. That does not seem a probable result?—When there is a greater circulation of gold currency here; naturally, prices would not increase; on the contrary, they might be lowered; there might be fluctuations for a certain period, but after that they would be automatically adjusted with very little fluctuations.

5612. Would you or would you not accept the general view that when you increase the amount of currency in a country in proportion to the things which are bought with currency for goods and services, that might tend to raise prices, and *vice versâ* when you decrease the amount of currency in that proportion that might tend to lower prices?—Provided there is no sufficient backing. If there is sufficient backing, probably prices will be reduced gradually.

5613. I do not think that the question of backing is relevant in the proposition that I have put. I was looking at the total quantity of currency in the country. Backing may tend to be a consideration where the point is how to increase or decrease it; I do not see that it is quite relevant to the matter to which I wish to direct your attention. At any rate, I gather it is your opinion that, by the sale of council bills resulting in an increase of the currency such as would reduce the rate of exchange, there would be no consequent effect on Indian prices except that of stabilisation. Have I correctly given the purport of your suggestion?—I do not mean by increasing the currency the coining of rupees. If you stop coining rupees on the one hand and if at the same time you introduce a gold currency, in that case there will be stabilisation of prices, after some fluctuations.

5614. My question certainly did not refer to one form of currency rather than another. I understand that, in your opinion, the result of such a process as the sale of council bills to promote a fall in the rupee, given the adoption of your proposals as regards the promotion of a gold currency, would be no other than that of stabilisation of Indian prices?—Yes.

5615. The opinion which you have now expressed greatly simplifies the analysis of any possible effects of an alteration in the rate of exchange. Nevertheless, let me ask you one or two further questions. Under question III, your Association makes a reference to the sale of council bills so that the tightness of the money market may be removed by the consequent increase in the currency. There is just one further question as to your previous reply upon this topic that I should like to ask. Is it your opinion that your expectation as to the result of such an increase in the currency on Indian prices is confirmed by the experience of other countries in periods during which the currency has been increased?—So far as I remember, in America there were similar conditions. I do not remember the exact time.

5616. I was wondering what period of increase in the currency in America you had in mind?—I cannot say exactly. I have no other analogy in my mind with regard to other countries.

5617. You could not give us any instance of a country having any system of currency, whatever it might be, a gold standard or a gold exchange standard, in which there has been such an increase in currency as that referred to here, which has been achieved without any consequential effect upon internal prices. Has it not been the common experience that such an increase of the currency is followed by a commensurate rise in internal prices?—Yes, the first effect would be that, but the after-effect will be the stabilisation of prices. Any measure when it comes first has certain effects which have for the time being to be suffered, but afterwards, when the conditions become normal, gradually the whole position adjusts itself.

5618. I think that really brings us more together, if we understand that such an increase in the currency is at any rate followed by an initial rise of prices in the country. Now I want to put this point to you which may have been considered by your Association. When there is such an increase and a rise in prices, which you tell us is only temporary, that effects, does it not, a disturbance as between the debtors and creditors of a country?—Yes, there would be, as the first effect of it.

5619. And that disturbance, when there is a rise in prices, is to the detriment of the creditors, is it not? —Yes.

5620. And particularly that class of creditors who are creditors in respect of interest on fixed capital? —Yes.

5621. So that the effect of such a rise would be that all investors in fixed investments would be worse off proportionately?—For a temporary period only, and perhaps they may gain to a better extent at a later stage, but they will be temporarily worse off.

5622. All those who are debtors in respect of long term investments would be better off?—Yes.

5623. Now I want to look at it from another aspect. I understand you actually express the view in your Association's memorandum that one of the great interests which you desire to serve by the introduction of a reformed gold currency is to encourage the saving and investment habits of the people?—Yes.

5624. From this point of view, is it really a way of encouraging the saving and investment habits to start off with a measure which so definitely is adverse to the interests of the saver and the investor?—Every measure whenever it is newly introduced does have some hard effects on some sections of a community. If we take the example of a sudden rise and fall in exchange, we feel that the position of creditors and debtors is suddenly changed from one extreme to another within a period of three or four months. So these things are not to be calculated when we introduce new reforms, because we have to consider that the final effects will be stabilisation between the parties, and in my experience such hard cases could not be considered in framing a law.

5625. There are one or two points concerning your practical recommendations on which I would like to elucidate the opinion of your Association. In the first place, who would have the management of the note issue? Would it be given to the Imperial Bank? Are they to have full control of policy and of the reserves, or something short of full control?—I think they should be given full control; but at the same time there should be an Advisory Board of non-official members, and the Bank should be prevented from doing exchange business, or there must be a separate department altogether for this purpose.

5626. Then you recommend, as to the constitution of the Bank that it should be supplemented by an Advisory Board and other necessary safeguards. Let us take them one by one. What do you suggest should be the composition of the Advisory Board? Is it to consist of officials, or bankers, or merchants, or of what class?—Advisory Board of some experts of this country in currency and exchange matters.

5627. Currency experts?—Currency experts and some Government experts also.

5628. By experts do you mean gentlemen in the academic world or gentlemen in the business world? —Both.

5629. And Government members too?—Government members also.

5630. What will be the functions of the board?—The board should be an advisory board, and there should be statutory powers defined actually for the purpose of the board as well as for the working of that department.

5631. The board will, I understand, tender advice to the governing body of the bank?—Yes, and there should be statutory laws previously fixed before the establishment of the board as well as the separate department, and the department should be run on the lines fixed by those statutory rules and regulations.

5632. You say there should be other safeguards. What is the object of the safeguards?—There will not be injudicious use of these powers, or in times of emergency they may be well advised.

5633. I am not adopting any opinion; I am only testing your views. Why should the advisory board consist of gentlemen in the academic world and the business world? Do they understand the business better than the men engaged in the industry itself? —Because all these brains combined are in the nature of a complete expert body. Academical men would be looking at the question from the standard of theory. Practical business men would be looking at the question from the point of view of the difficulty which the business men will feel, and the Government members will look at the question in the light of the difficulties in which the Government will be involved in undertaking a particular policy. So all these different interests and all these different kinds of practical brains should be put together to form out a regular scheme or to give regular advice in a particular action.

5634. Might it not be said that banking is a very technical business, that the best man to understand it is a banker, and that you cannot make one banker by putting together a professor, a merchant and a Government official?—Well, I think all of them will agree on a particular method or they may go by a majority if necessary.

5635. You might get a majority decision by the professor and the Government official against the business man or by some other combination. Would that be a practical way of conducting a very technical business?—Of course we get some members from the non-official side of the Legislative Assembly.

5636. On the advisory board?—On the advisory board.

5637. Are there any other safeguards which you would desire to see incorporated in the constitution of the Imperial Bank before the transfer?—That is a matter for experts to determine. They should go into the whole constitution, into the whole working,

and they should consider the line of future undertakings; and the experts should finally determine what kinds of safeguards are required for this purpose.

5638. The safeguards being directed to the end of the proper conduct of the business of the bank?—Yes.

5639. You recommend that the lowest denomination in notes should be Rs. 5 as at present?—Yes.

5640. Did your Association consider the desirability or otherwise of issuing one rupee notes?—At present they do not think there is any necessity of having one rupee notes; because they are likely to be lost and also they are likely to be spoiled. They are used greatly by masses, agriculturists, and such other people.

5641. What is your experience as regards their popularity during the period of their issue? Were they readily accepted, and circulated?—Yes; they were accepted; but the paper was of such a quality that it was much spoiled. The masses are not expected to handle these notes very carefully. Sometimes the oil monger may spoil it in oil and some other man in something else, and the texture of the paper was not good.

5642. That brings me on to that part of your Association's memorandum where they set out in more detail the recommendations as to the nature of the gold currency which you contemplate. Could you explain to us the paragraph under question VI in which you say, "It will be difficult in a country like ours to have a gold standard without gold currency. The use of gold coins will therefore be a necessary stage before we can adopt a more economical form of gold standard like that of England." If I followed your previous answers, they are to the effect that a gold currency is needed in order to inspire confidence in the public in the measure of value?—Yes.

5643. In order that it may have that effect, it is necessary that a certain amount of gold should go into circulation, is it not?—Yes.

5644. How do you contemplate that gold will actually get into circulation?—In the form of gold mohurs.

5645. What would be the process of issuing these mohurs?—They should be minted here in India.

5646. When they are ready, minted in the mint, how are they going to be put into circulation? I just want to follow the process of the introduction of the gold currency?—They may be given to the public whenever they require them as it is being done by the Bank of England.

5647. Issued against council drafts? That is one way in which you recommend the sale of council drafts?—Yes.

5648. Do you propose they should be issued in exchange for rupees or notes?—Yes.

5649. Both?—First for notes and then for rupees as it is convenient to the Government according to the measures that it undertakes.

5650. Initially, at any rate, their issue is to be only optional?—Yes.

5651. You look forward to a period during which the Government should undertake the obligation to give gold against notes and rupees?—Yes; at the end of 10 or 15 years the position will be complete.

5652. Can you tell us what your view would be upon the contention advanced by various witnesses that, due to the habit of gold hoarding in India, if gold is put into circulation in that way it will all drain off into hoards? Do you look upon that as a probable result?—I think it may be a temporary result. But as soon as more confidence is established in the people, they will on the contrary bring forward their hoarded gold and send it in circulation.

5653. There will be an initial period during which the gold might be hoarded?—There may or may not be. We cannot say that with any certainty. Perhaps there may be sufficient hoarding of gold with them at present, which may not compel them to obtain more gold or there may be temporary feeling in the public mind and they may go for more gold.

5654. One has to contemplate the possibility, shall we say?—Yes.

5655. Then we come on to the period at which you give gold as an obligation against notes and rupees. Do you propose to limit the legal tender of the rupee?—I think it may be fixed at Rs. 100.

5656. What, from your knowledge of the conditions, would be the effect of that upon holders of silver hoards?—I think silver will be released.

5657. And gold taken?—And gold may be taken, yes.

5658. There, again, your view is that we must contemplate that as a possibility?—Yes.

5659. Having considered these three requirements of gold, the amount of gold that will be required for circulation, the amount of gold which may be drained off into fresh hoards, and the amount of gold which may be required in substitution for silver hoards, has your Association been able to form any estimate of the additional amount of gold which will be required in order to bring this policy into operation?—It may require ¼ of the present currency to the highest limit, say to the extent of 100 crores of rupees.

5660. You contemplate that it might require as much as 100 crores of rupees of gold?—Yes; but not at one and the same period, and in that case the holding of silver will not be a necessity with the Government. They may at that time judiciously sell silver in different lots or at different intervals and utilise that money in bringing gold.

5661. That is relevant when we consider the cost of obtaining the gold, but the point I am now directing your attention to is the actual additional supply of gold which will be required. You put the estimate at about 100 crores of rupees?—Yes.

5662. It might be mentioned in passing that we have had other rather larger estimates. Accepting for the purposes of our discussion your estimate of 100 crores. . . .?—In the initial stages, I mean, subject to regular replenishment from different sources at the same time.

5663. Has your Association considered how that gold can be obtained?—India is always a creditor country, and it can expect more gold to come from foreign countries. That is one source.

5664. You say India is a creditor country in the sense that it takes the balance of its trade in bullion?—Yes.

5665. That bullion is already being used up for various purposes, namely, ornaments and so forth. It has been absorbed in past years; it has not gone into circulation, so that what you are contemplating here is, is it not, an addition to India's normal imports of gold?—Yes.

5666. The question that occurs to me is how is it possible for the Government of India, which has to supply the additional gold, to obtain it. It may be suggested that the only way in which the Government of India can obtain this additional supply is by raising foreign credits and in substance borrowing the gold?—Yes.

5667. In order to fill the currency?—Yes.

5668. That appears to be a necessary conclusion, does it not?—Yes. Instead of selling council bills they may have forward borrowing in London.

5669. You have, perhaps, seen an analysis in regard to this matter in our memorandum containing certain suggestions which has been supplied to the witnesses. There are two questions to which I should like to draw your attention. Have your Association been able to form any opinion on the effects of this additional requirement of gold in India upon general gold prices, and how those effects, if any, would react on the people of India?—There may be temporary effects which may be counterbalanced by subsequent after-effects.

5670. Temporary effects of an adverse sort, disturbances?—Yes.

5671. Secondly, have your Association been able to form an estimate as to the cost to the Government of obtaining the gold?—I do not think it would cost as much as it is feared.

5672. The ultimate cost to the Indian Government would be the cost of raising these credits against which the gold would be obtained, is it not?—Yes.

5673. In the memorandum we sent to you the permanent addition to India's bill is taken to be about 1½ crores a year, if I remember rightly?—Yes.

5674. Have you any criticisms on that calculation which might be illuminating to the Commission?—I personally have no means of judging.

5675. You are not prepared to criticise it. Then let us accept it for the purposes of the discussion. Just one general question to conclude this part of the subject. In view of what you have told us about the possible temporary disturbance to general gold prices, and, secondly, in view of the cost of round about 1½ crores, would your Association consider that, nevertheless, the benefits to be obtained by the adoption of the policy would be worth the cost?—The benefits would ultimately far outweigh these considerations; they would be too great as compared with these minor things.

5676. Have your Association considered what would be the cost to the Budget of the Government of India of a reduction of the ratio from 1s. 6d. to 1s. 4d.?—Yes, they would lose that gain in exchange for the present.

5677. The addition to the Budget has been estimated at round about 3 crores. Do you accept or criticise that figure?—No, that is the correct figure so far as the present circumstances are considered.

5678. The adoption of your two proposals then would put an additional burden on the Budget of about 4½ crores, 3 for the ratio and 1½ for the currency?—Yes. That is a probability after all; perhaps it may not be anything.

5679. When you are dealing with the future you are always dealing with matters of probability?—Yes, but these questions have more to be considered from a hypothetical standpoint, we cannot say exactly.

5680. Exactly; we are putting forward hypotheses which is just the difficulty of the subject. There are so many hypothetical considerations. Putting forward this hypothesis, that it will add 4½ crores to the Budget, what do you think would be the reactions of that socially and politically when it is necessary to raise fresh taxation. Do you think the people of India would accept these benefits at the price of 4½ crores of fresh taxation?—But I think Government revenue will be compensated from other sources by an increase in the prosperity of industry and agriculture. The sum total of prosperity in India so far as agriculturists are concerned would exactly, in my opinion, counterbalance these 4½ crores.

5681. Would that be an immediate effect?—Yes, during the course of 1 or 2 years that will be the effect.

5682. If the adjustments are so swift, I am afraid on the other side of the question we might have to contemplate that the adjustment of the loss of those benefits to the cotton trade, which you anticipate, might be equally swift, hy a rise in prices and a movement for higher wages, and so on?—On the contrary, I think prices will be reduced, and there will he good sales, and there won't be any competition from foreign countries against an adverse exchange.

5683. It seems to me as if in the argument you want to have it both ways. You think that the adjustments which will relieve the Government of India will be swift, but similar adjustments which might be expected to cancel out the benefits to the cotton trade will not be swift. Would it be prudent to anticipate that one would be so fortunate as that —that circumstances would work out entirely in that way although they might be expected to be similar in the two areas?—We cannot definitely say that.

5684. One point of detail upon which your opinion will be of value is under question VIII, where you say: "If the currency system be made automatic by the introduction of the gold standard as said above there will not be any great necessity to issue special currency to meet seasonal demands." I do not quite follow that. Generally one is inclined to suppose that the more gold there is in circulation the more inelastic the currency is, and the more it needs special provisions to ensure seasonal elasticity. Why do you think that the introduction of the gold standard on the measures proposed by you would make it unnecessary to make provision for seasonal elasticity?—Because a standard of automatic contraction and expansion of currency will be established and that will not require special facilities, certainly not in the second stage, there may be a necessity in the first stage.

5685. At first there is the gold exchange standard?—Yes.

5686. But I am referring to the second stage?—No, I mean the immediate stage after the establishment of the gold standard.

5687. I see. The first stage is when gold is going into circulation; you are looking forward to the second stage when gold comes out of circulation and is replaced by notes. You quite rightly say there will be a more elastic currency and you trust it will be unnecessary to have any special provision, although in most countries it is usual to have a special provision for this purpose even under those conditions?—It may be kept up, but there cannot be any special necessity for it afterwards. I have put down the words "any great necessity."

5688. I see it is worded with some caution. What, in your opinion, is the best way of providing for seasonal elasticity under a gold exchange standard? You are aware, no doubt, of the present provision?—Yes, 12 crores, I think.

5689 Yes, 12 crores against bills. Have your Association any proposal to make for any change which, in their opinion, would lead to the improvement of those provisions, or are they content with them as they stand?—No, there should be further powers with the Governor-General in Council to issue to the extent of 7 crores further in case of emergencies or crisis for a temporary purpose only.

5690. You would enlarge the amount?—Yes.

5691. You have no recommendation to make as to the nature of the securities against which the additional currency is to be issued?—They may be issued so far as the crisis is concerned only; as soon as the crisis is over they may be again withdrawn.

5692. They would withdraw themselves?—Yes.

5693. It is the nature of the securities against which the currency is issued?—Yes.

5694. Just one more question and that will conclude the questions with which I need trouble you. Under question VI you say, "If necessary with the gold standard it will be easier to import foreign capital for industrial purposes"?—Yes.

5695. Let me ask you to make the assumption that, by means of a perfected gold exchange standard system, the rupee has been restabilised in relation to gold as it was before the War at 1s. 4d. If you have attained stability of exchange you have attained, as we understand it, that condition which is essential for the free import of foreign capital?—Yes.

5696. If you will assume for the moment that that can be attained on the exchange standard system, then this circumstance would cease to differentiate as an advantage between the two systems recommended, would it not?—No, becauso this system has been sufficiently tried and found wanting. The experience of the last 8 or 10 years is not satisfactory to us.

5697. That really means that you refuse, as of course you are entitled to do, to make the assumption which I ask you to make, does it not?—Yes.

5698. A little further on you say: "If the gold standard and gold currency is decided upon, the relation of the rupee to gold coin will have to be fixed for internal purposes; no doubt for external purposes this ratio will lose importance as foreign transactions will then take place in gold. The most natural ratio in India is the pre-War ratio of 1s. 4d. to the rupee." Just to be quite clear about what you mean by that, you do not, I imagine, base upon that any assumption that by the introduction of a gold currency and by the establishment of the ratio of the rupee to gold at 1s. 4d., you can prevent whatever disturbances might result from the shifting from the present ratio of 1s. 6d. to 1s. 4d.?—I cannot understand the question very clearly.

5699. If you are to continue with a gold exchange standard and reduce the ratio to 1s. 4d., that would involve certain readjustments, would it not, in internal prices?—Yes.

5700. Instead of continuing the gold exchange standard you adopt your gold currency system and you fix your ratio at 1s. 4d. to the rupee in relation to the gold mohur. By doing so, do you avoid the disturbances which would be involved on the reduction of the ratio?—There may be some fluctuations.

5701. (*Chairman*.) I think that closes the questions which I wanted to ask in elucidation of your memorandum. I will now ask you to be so kind as to deal with any supplementary questions which my colleagues might like to ask.

5702. (*Sir Henry Strakosch*.) Mr. Patel, in your statement, under question I (*c*), you refer to the competition of Japan in dumping in India cheap goods. Could you tell us what the amount of imports from Japan into India are?—They are about 7 to 8 per cent. of the total.

5703. Of the total imports of the country?—8 per cent. of the total imports of cloth.

5704. And what are the goods that are mainly imported that compete with Indian manufacture?—All coarser count goods.

5705. Is this 7 to 8 per cent. the percentage of the total imports of all kinds of goods? If so, how much of that is cotton goods or any other goods that are competing with goods produced in India?—Are we dealing only with cotton goods or any other?

5706. I ask you how much Japan imported into India of all kinds of goods?—I do not know exactly about that.

5707. Therefore your reference to 7 to 8 per cent.?—Was with reference to cotton goods.

5708. Is it 7 to 8 per cent. of all cotton goods imported or 7 to 8 per cent. of all goods imported into India?—I think 7 to 8 per cent. of all cotton goods supplied to India; that is my recollection.

5709. India is a large exporter of raw cotton?—Yes.

5710. Could you tell us what percentage of India's cotton production is exported into Japan?—Practically nil for the last one year.

5711. Last year there was no export at all to Japan?—To China there were only four bales piece goods so far as I remember; to Japan a very poor insignificant quantity.

5712. Of raw cotton?—Of cotton goods.

5713. I am speaking of raw cotton?—Japan is taking a greater quantity than it used to before.

5714. Could you tell me how much that would be?—I do not know exactly the number of bales. Perhaps Sir Purshotamdas Thakurdas would be able to give that information to me. I do not know exactly the number of bales; but it has increased considerably for the last three years.

5715. Would you say that the exports of raw cotton into Japan are greater in value than the imports of manufactured goods from Japan?—I cannot say that in exact terms.

5716. I understood that it was so, that the export of raw cotton to Japan is far greater than the imports of manufactured goods into India?—Yes. That is a fact because Japan is taking Indian cotton on the one hand and selling manufactured cloth on the other, not only to India, but to Egypt, the Levant, South Africa, Mesopotamia, Turkey, &c.

5717. I suppose you will agree that the price of raw cotton depends upon world prices?—Yes.

5718. And that India has no control over the world gold price of cotton?—Yes.

5719. How much of the total amount expended in manufacturing cotton goods is represented by the value of the raw cotton used for its manufacture in India?—That is in turning cotton into cloth?

5720. Let us say one unit of cotton goods may be one rupee; what percentage of that is represented by the value of raw cotton?—Over 50 per cent. and a little more.

5721. I have a figure before me of 60 per cent.; would you agree with that?—I would agree with that.

5722. What percentage of the outgoings would be for wages?—About 10 per cent.

5723. You agree that cotton prices cannot be controlled from here; if the price of the rupee in terms of gold is settled at 1s. 4d., would you please tell me what the advantage to the Indian cotton industry that would be, and where the advantages come in?—The foreign imports which at present get a 12½ per cent. bounty will be stopped as against the indigenous production. At 1s. 6d. the importer gets an advantage of 12½ per cent. against the indigenous product. So that 1s. 4d. ratio reduces the cost to the extent of 12½ per cent. to the indigenous industry.

5724. But if the prices are adjusted according to world gold prices, how does the advantage arise? I do not quite follow how the advantage arises?—If you fix exchange and prices at 1s. 4d. rather than at 1s. 6d., then every importer has to pay 12½ per cent. more than what he has to do to-day.

5725. In rupees?—Yes, and similarly the prices of imported stuff will be dearer to the extent of 12½ per cent. to the importer and if he competes with local manufacture or local industry, he will have to take into consideration the 12½ per cent. which he has to pay there.

5726. But if you depreciate your rupee to 1s. 4d., then 1s. 4d. will buy proportionately less in the country?—The prices will be lessened in that case.

5727. The prices would rise?—On the contrary, they would be lessened in my opinion.

5728. Surely if the 1s. 6d. rupee bought a hundred units of goods, the 1s. 4d. rupee is going to buy 12½ per cent. less?—Yes.

5729. In other words, 87·5?—That is not with regard to imports.

5730. We have started from the premise that so far as cotton is concerned, the price of cotton is regulated by the world prices?—Yes.

5731. Therefore if your rupee will in future buy 12½ per cent. less abroad then the cotton within the country will be an equal percentage higher?—Yes.

5732. Having regard to that, I do not yet see where the advantage comes in?—I think you yourself stated that the cotton prices in India are governed by America and other cotton prices. So these factors will not act so cogently as compared with ruling American prices; and a sudden rise or fall on account of quotations that are given out in America will affect prices of cotton in India.

5733. They will not move according to American figures?—America will govern prices; India's export and import will not govern prices.

5734. I am sorry I cannot follow that?—Cotton exported out of India or cotton goods imported into India will not be directly affecting the prices of world cotton.

5735. I follow?— While American prices will affect prices of the whole world cotton.

5736. Quite?— Regarding the advantages and disadvantages which have been recently calculated, they

are being originated from the considerations of India's products and export and import. So the calculation of fluctuation in world cotton prices has no direct connection with the calculations of those figures, so far as India is concerned. It is America that fixes all the cotton prices according to its own crops or some other manipulations.

5737. But the Indian price obviously is influenced by the purchasing power of the rupee. If you fix the purchasing power of the rupee at 1s. 4d., that rupee is going to buy 12½ per cent. less cotton than the 1s. 6d. rupee. Therefore with the 1s. 6d. rupee you can buy 12½ per cent. more cotton than with the 1s. 4d. rupee?—But the cotton which we will buy from the foreign countries would be less than the cotton which we would be giving.

5738. I am coming back to the manufacture of cotton goods. 60 per cent. of the expense involved is in respect of cotton?—Yes.

5739. Then, if the cotton price here does adjust itself to the world gold price of cotton, you will be able to buy with a 1s. 6d. rupee 12½ per cent. more cotton than you can buy with a 1s. 4d. rupee?—But so far as India is concerned India is not required to buy cotton from outside to that extent.

5740. I am not speaking of the outside. The cotton millowner in India will buy in India his cotton, and that he will get with a 1s. 6d. rupee 12½ per cent. more than with a 1s. 4d. rupee?—I cannot believe that, as America rules cotton prices in India and not 1s. 4d. or 1s. 6d. rupee.

5741. But obviously it must be so; if you have stabilised your money in terms of gold and if you are depending upon world prices so far as the internal price of cotton in India is concerned, as the value of the rupee increases so you will be buying more cotton in India for it?—But we first assume that the world prices of cotton are being governed mainly by America. Next day there may be a craze in America and the prices would be suddenly fluctuating in India, in spite of all other circumstances remaining in normal conditions in India say 1s. 4d. or 1s. 6d. rupee.

5742. If I may suggest, do not let us confuse the question by assuming fluctuations in cotton prices abroad. Let us say cotton has reached a certain level and let us compare what is the effect upon the millowner in India of a 1s. 6d. rupee and a 1s. 4d. rupee. The effect, as I put it to you, will be that if the rupee is stabilised at 1s. 6d. you would be buying with that rupee 12½ per cent. more cotton than with a 1s. 4d. rupee? The effect as I put it to you will be that, if the rupee stabilises at 1s. 6d., you would be buying with that rupee 12½ per cent. more cotton than with the 1s. 4d. rupee?—I can't agree with that.

5743. But it is a very simple arithmetical calculation. If you will work it out for a given quantity of cotton, I think you will come to that conclusion, because the 1s. 6d. gold rupee will buy obviously 12½ per cent. more than the 1s. 4d.—That is a fictitious calculation, so far as you take 1s. 6d.

5744. Why is it fictitious?—Because we don't base our calculations under the present circumstances on this 1s. 6d. only.

5745. What do you base it on? You must base it on 1s. 6d. because, if you want to buy with the proceeds of your cotton sale goods abroad, you can exchange your rupee at the rate of 1s. 6d. for the rupee. Therefore, you have got to take it into calculation.—So far as this cotton industry is concerned, we are not required to buy from foreign countries. We are depending mainly upon things produced in our country, the labour is in our country, and even the management is our own. There is very little we get from outside for our cotton industry.

5746. Yes, but that does not lead us to the point. You admitted that the price of raw cotton is governed by world prices. If American cotton goes down, the Indian cotton goes down.—Yes.

5747. Very well. I compare what a 1s 6d. rupee would buy internally and what a 1s. 4d. rupee would buy internally. If they are both dependent upon the external price, then obviously the 1s. 6d. rupee would buy 12½ per cent. more cotton than the 1s. 4d. rupee.—Yes, but that theory would not be applicable in my view to the conditions in which India is at present, so far as cotton buying is concerned.

5748. But you are buying all your cotton in India, and with a 1s. 6d. rate you would buy so much more cotton in India?—That I don't believe. Because there is no inter-relation regarding India's buying of Indian Cotton between international countries in this buying and selling. If we have to export our goods to some foreign country, then it would have some effect, in my opinion.

5749. (*Sir Henry Strakosch.*) Then I am afraid we cannot agree.

5750. (*Chairman.*) It comes to this, that you must have two world prices for the same commodity: one price in America and another price in India?—Yes.

5751. (*Sir Henry Strakosch.*) Then I come to another question and I refer to the passage under question VI in which you say "India has been considered a sink of precious metals by the West. It is no fault of the people of India if they are led to this practice, because they cannot have any confidence in the unstable token rupee." Would you agree that it is desirable for the people of India to put their savings into things of a reproductive character rather than in precious metals?—Yes. It is desirable and it is necessary.

5752. And if India succeeds in educating her people to invest in such securities she will be saved having to import capital from abroad?—The importing of capital from abroad will be necessary in certain stages.

5753. Quite, but to the extent to which the savings are put into reproductive things, her requirements for capital from abroad will be diminished. Now, what I can't quite follow in your statement here is this: that it should be necessary to give the people gold instead of the present token rupee. If it is desirable that the people should put their savings into economical things, then it does not matter whether it is a token rupee or a gold coin. Both are undesirable, you will admit?—Yes.

5754. Well now, don't you think that the more logical way of tackling the question would be to educate the people to save in things other than precious metals and not give them precious metals? You, in fact, induce them to retain precious metals of the very kind that they are coveting most, namely gold. Is it not more logical that they should be first taught to invest in things other than precious metals, and that they should then be given the gold when the gold will do what money in other countries does, namely form the medium of exchange?—In my opinion, I think, so far as India's circumstances are concerned, it is putting the cart before the horse. You will find that 70 or 80 per cent. of the people are agriculturists and they are quite ignorant of all these things, so they are simply subject to prejudices and sentimentalism. As soon as there is the least doubt or as soon as there is the least fluctuation, they think perhaps the Government is to go, perhaps something is to happen, and they will go for getting in gold that they can cover up. So before educating them to the reality of this idea, it is necessary that they should be, by practical steps, brought to the level of understanding, first that gold is available to them whenever they require it for their use. This confidence between the masses and the Government should be first created. After this confidence is established, after the practice of say ten or fifteen years, people will not go in for hoarding gold to this extent. They will then naturally change their attitude when they find that whenever they require gold they have only to go to the currency office or to the Government, and for silver coins they can get gold and for gold they can get silver. So that, this very effect on the minds of the people, so far as

they are ignorant at present, could be removed by offering them bread against bread, not stone against bread. Though logically, your way is the correct one, and I quite approve of it. But that would do in a country where there is good education. But in a country like India where education is so backward and where even the greater majority of the people do not understand their rights the only safe way is to win over their confidence by allowing them to acquire gold at any time they desire and then as a consequence thereof they will be getting practical experience on the one side and they will be educated in this subject on the other side.

5755. But tell me, who hoards the gold that is being imported now? Is it all held by the agriculturist or is it held mainly by the wealthier and more instructed class?—I think it is held in greater quantities by agriculturists and those other people who are not educated—the quantity is greater with them.

5756. But we have been told by other witnesses that the demand for gold by the ryot would be very small because he is too poor to acquire gold and that the gold is mainly needed for the richer and therefore more educated classes.—Yes. I mean there is a certain section of the middle classes. They are required to have gold ornaments and gold things in view of certain caste customs and practices and so on. Even at the cost of incurring debt they have to go in for getting gold and gold ornaments.

5757. That is more or less like other countries.—Then secondly, so far as these ignorant agriculturists are concerned, any temporary saving they make they immediately invest in gold or silver.

5758. Yes, but they buy mainly silver, because they are too poor to buy gold.—But if they get a little more money they will go in for gold. Some of the better-off villagers go in for buying gold and they even put it underground so that nobody may take it away as they have no confidence in banks or other people.

5759. But to revert to this method of procedure, it is after all merely a question of choosing which method is the more effective to educate the people in the habits of saving in things other than gold. You will admit, I think, that one can have two opinions on that subject?—Yes.

5760. There is one view which you support, namely that it is necessary to first saturate the country with gold and that, having done so, one may hope that the people will invest.—Yes.

5761. And the other view is that it is more desirable to show to the people from the very start that it is not desirable to hoard gold and other precious metals, that they would do better by putting their savings into other things.—But perhaps they may take a wrong view of the suggestion. If you ask them not to hoard gold, they will think perhaps that these people are trying to mislead and they will on the contrary go for buying more gold.

5762. Now, I want to go a step further. If one views the good of the whole of India, has not one got to set against these two alternative methods of education, what the price of each method would be and what dangers the one involves and what dangers the other involves? And if you finally came to the conclusion that the dangers and the expense of the one method are far greater than the other, would you not consider it a reasonable proposition to say "Well, let us first try "—because there can be a doubt as to which of the methods is the better one—"the method that is least expensive and involves the country in least danger."—Yes.

5763. Would you admit that?—Yes.

5764. And if that was so, would you see any very great objection to a true gold exchange standard under which you would have a token currency internally not convertible, but freely convertible externally. That is to say, you should be able to convert your rupee into gold and gold into rupees for export. And at the same time establish a system which will be truly automatic. In other words, you would have a gold standard in the true sense with this exception that gold would not circulate internally?—That in my view is not the correct theory. You must first go from the bottom.

5765. Yes, but I want to put to you the two propositions. I said the one is costly and possibly dangerous, the other in its monetary effect is the same as the gold standard except that you have no gold in circulation. Which would you choose?—In my opinion it is better to select a costly method when its foundations are very strong instead of preferring a less costly method in which the foundation is shaky and when the building is going to fall within a very short time.

5766. Even though the ultimate effect would be to educate the people to put their savings into the very reverse of what is desirable?—I don't think you can educate the people in a hundred years by taking that line, but by offering them practical measures in the form I have suggested you will be educating the people by creating confidence and improving their position within ten or fifteen years.

5767. Could you tell me to what extent the note circulation has increased during the last twenty years? To what extent the post office savings bank deposits have increased; to what extent cash certificates have increased?—They have.

5768. Well, do you see in the figures of these increases anything to support your view that it is necessary to have a gold currency to induce the people to save in forms other than precious metals?—Yes. But these investments have been made on account of higher interests offered to them and greater securities as compared with other securities.

5769. It does not matter. I am speaking of the highest class of securities and the highest rates of interest. But is it not the fact that the note issue has increased?—Yes.

5770. Savings banks deposits have increased?—Yes.

5771. And cash certificates have increased?—Yes.

5772. In other words, that the habit of the people to save in things other than precious metals has increased?—But the imports of gold have increased; how could you account for that, side by side?

5773. Well, if you take it over a period, I should say that the imports of gold have remained pretty stationary, if you take the last 20 years?—In that case I have reasons to believe that that investment is diverted from industrial investment to these post office and other types.

5774. But it is investment?—It is a transfer from one entry to another entry. If I take money out from the Imperial Bank and deposit it with the Central Bank, it is not a habit created in me, it is simply a transfer.

5775. You suggest therefore that during the last five years India has not put more capital into industry than before?—They might have put more capital but the capital has been diverted from industries to the Government side. Instead of remaining fixed to the industries, the capital has been diverted from industries to Government securities, etc.

5776. Unless foreign countries have brought these industrial shares, no diminution of saving in securities has taken place? Have you heard of any great sale of Indian securities abroad?—I talk of the local conditions.

5777. Very well, if one Indian sells his shares to another Indian, you do not diminish the amount of money invested in securities?—But I do not get the habit of investment thereby.

5778. Well, I submit that the increase in the note circulation, post office savings deposits and in cash certificates is an indication of an increased tendency to save?—So far as the securities on Government side are concerned, I do admit that.

5779. (*Sir Maneckji Dadabhoy.*) My colleague, Sir Henry Strakosch, has questioned you regarding the increase in post office Bank deposits, and other kindred deposits, Government securities and so

forth; are you aware that those deposits are mostly made by a particular class?—Yes.

5780. They are made by clerks, middlemen, men drawing smaller salaries both in Government and commercial offices and they are a special class of people?—Yes.

5781. While the saving in gold are largely made by well-to-do people as well as by large classes of agriculturists?—Yes.

5782. You are aware that in 1924, last year, nearly 79 crores of gold was imported?—Yes.

5783. How do you account for that demand?—That is all absorbed in the country.

5784. And that demonstrates that the habit of the people or rather the attachment of the people for gold is getting stronger than ever?—Certainly.

5785. And that they consider gold as the most stable sort of investment?—Yes.

5786. My colleague also asked you some questions about Indian cotton. Have you any idea as to what quantity of foreign cotton is imported into India?—As compared with the local indigeneous product, I think it might be about one-fortieth or one fiftieth of it.

5787. It is only for the purpose of manufacturing the higher counts of yarn that cotton from South Africa, Egypt and America is imported?—Yes.

5788. And that the bulk of our cotton purchases in India is made by rupees only?—Yes.

5789. And that whether the exchange value of gold may be 1s. or 1s. 4d., so far as the internal payment is concerned it makes no difference?—Yes.

5790. It would only affect foreign stuff so far as cotton is concerned whether the ratio is 1s. 6d. or 1s. 4d., it would only affect foreign imports and has no effect whatever on local purchases, internal purchases?—Yes, certainly.

5791. I am rather confused over your reply to the Chairman about the Imperial Bank. You said that the Imperial Bank should have full control but it should also have an advisory Board with non-official members, and you recommend that a part of these members should be taken from professors, others from commercial communities and partly from the Assembly? Would not a constitution of that nature hamper the work of the Imperial Bank than facilitate the smoother working of the Bank?—In certain matters it may so hamper.

5792. Don't you think that from the Bank's point of view it would be absolutely desirable to detach all politics from the management of the Bank?—Certainly, it is an imperative necessity.

5793. And on that ground would you not reconsider your views about the appointment of members of the Legislative Assembly on this Board? Would you not consider that suggestion as inadvisable?—I am not so keen over that. I am keen over the selection of the Board from the best brains in this country.

5794. It would be safer to keep the Bank transactions absolutely free from politics and allow no politics to influence in any way the progress of commercial business in the country? Yes.

5795. And therefore on reconsideration you would not recommend the appointment of Members of the Assembly?—In that case, members from bodies such as the Chambers of Commerce or Indian Merchants' Chambers, that have already established good repute may be appointed.

5796. Do you not think that the Bank, left to itself, and controlled by men trained for years together in banking knowledge and information would be better able to manage the business than any outside body?—But outside advice is sometimes more useful to such people.

5797. But is it not open to them at any stage to take such advice, why make it statutory? It is always open to a Bank managment to obtain outside advice?—I have not heard such examples in this country where voluntarily such effective advice has been sought for from other bodies unless there is some provision that they should do it in particular circumstances.

5798. You do not mean to tell me that the Head of a Bank in India, say in Bombay or Calcutta, never takes outside opinion about certain trade matters?—I am sure you are aware that a large number of brokers always go to the Bank and see the head man, that large classes of respectable people for financial purposes resort to the Banks and the Head of the Bank has often long conversations on various aspects of trade with these gentlemen? Do you not think that that is an adequate machinery for the obtaining of information which you think ought to come from the medley body like the one which you suggest?—I think an advisory body is a necessity.

5799. (*Mr. Preston.*) You say as No. 1 of your conclusions that you are of opinion that the gold standard is the best system of currency for India, and your reply to certain questions Sir Henry Strakosch put to you might lead one to believe that in the attainment of that ultimate goal you are prepared not only to pay handsomely for the privilege but to wait for a certain amount of time?—Yes.

5800. Might I ask what number of years you would give for the course of progress to be achieved until we arrive at such an accumulation of an amount of gold as might be held to be large enough to commence a real gold standard? Would you allow a period of 15 or 20 years? What is your idea?—I would allow the declaration to be made immediately.

5801. That is, that you are going on to a gold standard? In the acquiring of an amount of gold sufficient as may be considered necessary to make a first attempt, how many years would you allow to intervene before such an important declaration could be made?—I think Government can safely do it within one year; they can make a beginning at once within one year.

5802. (*Sir Henry Strakosch.*) You mean undertake the legal obligation to pay?—Yes, but we have got to give the Government an option at the same time.

5803. You said before that in 10 years the country might be sufficiently strong to adopt the full gold standard and the legal obligation to pay out gold?—But I did not mean that we should defer action till 10 years. My idea is to begin the action, and within three to six years there will be stability and good running of the whole thing.

5804. The obligation to pay gold would begin a year after?—Yes, but the option will be with Government, how much to pay and by what method to pay. Suppose people rushed forward with rupees to convert them into gold, in that case Government might have certain restrictions.

5805. (*Mr. Preston.*) There is no intention on your part to allow the old gold exchange standard to function until that time when the country does absolutely feel itself in a sufficiently sound position to take on this legal obligation?—Yes, but subject to taking this legal obligation within one year.

5806. But you are firm in your idea that you would be strong enough within a period of one year from the time the notification was made to have sufficient gold accumulated to accept all or any obligation which would come to the country under your scheme?—But there may be different limits. We would like to authorise Government to fix limits and to prepare themselves to begin the scheme from the next year as it were. We do not want to give more time, say 10 or 15 years to make full preparations and then to defer action for beginning then.

5807. It is possible of course for Government to declare that they ultimately desire to get on to a gold standard, but they may also make a reservation that having in view the enormous cost to the country, it would be absolutely necessary that the operation should be spread over quite a long period of years, and that was really the reason why I desired to get from you an idea as to when you would consider this country was sufficiently strong to undertake that legal

obligation, which you say now you consider they would be quiet capable of doing within one year. There is one more question with regard to the matter of Council Bills. Do I understand that it would be your intention not to sell Council Bills beyond the Government's annual requirements?—Yes, so far as their home charges are concerned.

5808. That would mean that you would only sell the actual amount of home charges and nothing beyond?—Yes, nothing beyond.

5809. You would limit the sales of Council Bills to the actual amount of home charges?—Yes.

5810. So that in the operation for additional currency in a busy season the procedure would be that gold would have to be tendered in London for rupees through the Currency Reserve here in India? Is that what you have in your mind's eye?—Yes.

5811. I will repeat it so that there may be no misunderstanding,—that all amounts sold above the actual amount of home remittances shall be by a process of gold tendered in London and operated through the Currency Reserve and currency delivered in this country?—That would not be necessary in all the cases because there would be forward buying on the part of the Secretary of State.

5812. That is apart from this one particular operation; but in the case of a bank desiring to obtain local currency in a busy season you would say "I will sell you no more council bills"; Then how is the additional currency to be obtained. Then they say "we are prepared to give you gold; you give the equivalent amount in local currency in India"—That is really what you mean?—Yes.

5813. (*Sir Alexander Murray.*) Mr. Patel, you said in answer to the Chairman, I think, that a low exchange is advantageous to India?—Yes.

5814. It is equally advantageous to other countries; is it not?—Yes, I think so.

5815. Why did Germany who had a very low exchange for a while get off that low exchange?—The position of Germany on account of war conditions was altogether upset. It was in conditions which were not normal. Germany was in abnormal conditions and it had to reconsider the whole question.

5816. Then why should France and Italy make such efforts also to get off the low exchange on to a higher level?—Because France is under a very heavy debt and it could not sufficiently cope with the situation.

5817. If low exchange is advantageous why should they want to keep off the low exchange?—That depends upon the international relations of creditors and debtors. When a country is in debt to a very great extent, it has to adjust its things in accordance with the position of the creditors and the demand of the creditors.

5818. But most people say that low exchange means high prices and high exchange means low prices. If high exchange means low prices, will you not prefer high exchange with low prices internally?—No. My point is this, that if we have low exchange then India is to be benefited from both sides, from the point of view of agriculturists and from the point of view of industrialists. If there is a higher exchange then it is to lose on both sides.

5819. India will have the benefits from its agriculturists' point of view and also from its industrialists' point of view as a result of low exchange?—Yes.

5820. Because both are producers?—Yes, one is the producer and the other is the manufacturer; so far as the manufacturer is concerned, the importer of the foreign goods does not take advantage against him. So far as the agriculturist is concerned, his agricultural produce fetches him good price.

5821. What about the consumers?—Consumers also have to pay lesser prices. Consumers will have to pay lesser prices in that case because gradually the level of prices will be getting down through stabilisation.

5822. High exchange means low prices and then the consumer will benefit, won't he?—Yes; that is in the first stage; but when there is stabilisation and normal conditions are established it is different. To-day for example if at 1s. 6d. certain quantities of articles are imported, the industrialists here will also be put under a disadvantage. But if the exchange goes to 1s. 4d., in that case the prices here will be automatically gradually reduced; because industrialists will be making profits instead of losses and they will see their way to reduce the prices. That is an indirect way of reducing the prices.

5823. Then you think that it is the imports from other countries that are reducing prices in this country? It is not the high exchange that will reduce the price?—It does reduce.

5824. That is what you want, lowering of prices.—No; we do not want prices to be lowered by the imports but governed by the internal conditions in India.

5825. But then you say that exchange and prices react on each other to such an extent that the exchange influences the course of prices?—Yes.

5826. And if the cotton goods coming from other countries as a result of high exchange are causing prices in this country to get lower, that is an advantage to the people as a whole. Is it not?—Why? On the contrary, in my experience, if we look to the figures when the exchange was 2s. 11d., the prices of certain kinds of cotton cloth were nearly double what they are to-day. So India has not gained.

5827. But taking this cotton cloth which is manufactured in three ways I take it—that is the cloth made in India—the Swadeshi kapra; there is the Indian mill production and there are the imports. Have you any idea of the proportions in which these three kinds of cloth are used by the people of India as a whole, that is the Deshi kapra, the mill produce and the imported cloth?—Imported figures, so far as I remember, for the last year were 83 crores.

5828. Can you give me in percentages?—Local mill production was about 59 crores.

5829. That is not the figure that I have got, Mr. Patel. I am taking the figures from the latest Review of the Trade of India, Sir Purshotamdas will correct me if I go wrong, and they show that the production in Indian mills of cotton piece goods in 1923-24 were 170 crores of yards?—I am talking in rupees.

5830. I am talking in yards?—I do not remember in yards but I remember in rupees.

5831. I will give you in yards.—But the value will be a more reasonable consideration.

5832. If you are dealing in yards, it will be a much more reasonable way of doing it.—To deal in yards is more fallacious. When a cloth is made of higher counts and when you take the yards into consideration, it won't help you.

5833. I have not got the money figures; but I have got the yard figures here.— But I will give you the money figures. 83 crores of imports and 59 crores of local mill production. I cannot say about the Deshi kapra.

5834. Deshi kapra is getting bigger as the result of Gandhi cult?—I think Deshi kapra is on the contrary getting low. The handloom cloth is gradually increasing.

5835. Does one balance the other?—Yes, I think so.

5836. Don't you think that part of the trouble in India at the present moment as far as the cotton mills are concerned is due to over-production?—Certainly not; because India has got sufficient scope to double its present industrial production.

5837. I quite agree. But as regards the facts, in the pre-war days, as far as I can see, the Indian mills were only producing 110 crores of yards, whereas now they are producing 170 crores of yards?—In how many years?

5838. I am speaking of the pre-war average. It was 110 crores and the present average is 170 crores. Well, that is a very material increase?—Certainly. But I would like to compare also with tho figures of import for the same period.

5839. I will come to that just now. Now the cotton mills in Lancashire are just suffering as badly as the Indian mills?—Yes; but I do not think they are so badly pressed as the Indian mills are.

5840. In what way?—In every way; in the cost of production, in taxation, in facilities for financing and so on.

5841. But let us deal with production. Cotton mills of Lancashire have found it necessary to come down to a four-day working per week. You have not? —No; we have not.

5842. Would not that make a very material difference?—I think it would have led mills to go into liquidation here because foreign imports would have been considerably increased and we would have permanently lost our own markets.

5843. So that you think it better to run your mills full time making losses than to close down, going into liquidation and reconstructing on a lower basis? —Yes; instead of losing the market from our own shores we would rather go to that corner.

5844. Now these imports from other countries, according to the figures that I have here, in the pre-war days averaged 263 crores of yards and that has dropped now to round about 148 crores of yards. —But is there no difference in the texture? As I suggested previously yardage is fallacious. If the value of 148 crores of yards is greater than the value of 263 crores, probably we will be led to believe that it has increased.

5845. I think we can as well deal with yards in the meantime. I find that whereas the Indian cotton mill production has increased 54 per cent., the imports have actually decreased 44 per cent.—Perhaps from the figures of yardage; but not from the figures of value.

5846. Relatively, the figures must be the same whether it is yardage or value.—It is so technically. Suppose you import a very fine cloth of 80s. and 100s., this one piece may be worth Rs. 16, though the yardage may be 24 and in the other case the yardage may be 40 and the price will be comparatively much less, say 6 only.

5847. But that was the case in the pre-war times too.—I agree so far as the yardage is concerned.

5848. You say the high exchange has enabled other countries to sell at cheap rates in India. As a matter of fact on the figures, instead of sending any increased imports, they have sent very much less imports and we are now importing 148 as against 263 crores in the pre-war years.—So far as the yardage is concerned, yes. But what about other countries that have imported into India? Have you taken the totals for all the countries?

5849. Yes. I am going to deal now with Japan. Now Sir Henry Strakosch asked you what the percentage was of the Japanese cloth coming to this country. I think something like 8 per cent. of the imports of cotton piece goods come into this country from Japan?—I think I made that statement.

5850. I think that is the figure. Is that correct, may I know?—Yes.

5851. Well now Japan is 8 per cent. of the total imports, but of the total imports and mill production put together Japan is not more than about 3 per cent.—The total production for India?

5852. I am leaving out the deshi kapra now but I am going to show that if you take the Indian mill production and if you take the imports from all the countries and add them together, what percentage does Japan bear to that? It is only something like 3 or 4 per cent. And if you are including the deshi kapra in that I think it reduces the Japan figure to probably 2 per cent. or something like that. Now do you mean to tell me that the Japanese import figures of 2 per cent. are of such very great importance in the cotton industry as to justify us in recommending that exchange should drop from 1s. 6d. to 1s. 4d.?—In my view the comparison of figures on this system is rather a jugglery. We must take the practical view and the practical effects which are being experienced in the market so far as the products are concerned. I will explain a little further. Japan is manufacturing those sorts which are mostly produced by Indian mills, so the competition with Indian mills is practically to a great extent from Japan rather than from other countries, and that is why we are making a row. It is Japan that is competing with us and driving us out of the market.

5853. Quite true but even so the Japanese figures are only 8 per cent. against 92 per cent.—Of course if you want to go to the extreme of dividing by percentages there are 330 millions of people in this country; you would have to see the average per head and find out some insignificant figure.

5854. I was only going to show that the Japanese figure is 8 per cent. against 92 per cent., 8 per cent. of the total imports. What does that mean, the Japanese figure against your figure?—Have you got the figures of Japanese competition against local mill products, what is that percentage?

5855. Just let us take that; it will be very interesting. It is about 7 per cent. I think.—Against the total mill production here? Yes, the Japanese imports are about 7 per cent. Is there any special classification between local manufacturers, fine counts and coarser counts?

5856. No they only differentiate between grey goods and coloured goods.—What is the percentage between the grey goods and Japanese competition?

5857. Well chiefly the Indian mills produce, as you know, grey and bleached goods; and the Japanese imports are also chiefly grey goods.—So there the incidence is greater so far as the grey goods are concerned?

5858. I will give you the figures there too. No it is only 8 per cent. But the point I really wanted to make was that while one generally admits that it is the marginal amount that is available for disposal that influences the price of an article, do you really think yourself that it is the very small percentage of Japanese goods that is now coming into the market that is responsible for the present bad state of the Indian cotton mill industry?—It is responsible in my view because in so far as practical business experience goes we find that if one particular sort or say 4 or 5 sorts of the total production are sold very cheap in the market, then other sorts are also affected and the general level of prices is reduced. That is how even the 8 per cent. competition from Japan makes itself effective.

5859. Even allowing that, in connection with a difference in the exchange rate, you say that " when the exchange is definitely stabilised at a certain figure for a long time, prices in the long run adjust themselves, and things go on in a normal fashion." So that eventually it won't matter whether it is 1s. 6d. or 1s. 4d.?—But that is subject to prices remaining at 1s. 4d. I have qualified my statement.

5860. You make a statement; then you say for certain reasons it should remain at 1s. 4d.; but that does not qualify the general statement that eventually it does not matter whether the exchange is at 1s. 4d. or 1s. 6d.—If it is 1s. 6d. then the whole system will be again disturbed.

5861. But it is 1s. 6d. now.—It has been disturbed.

5862. Therefore we are disturbing it again by going back to 1s. 4d.?—In that case no doctor should treat a patient. If there is a disease we have to treat it.

5863. (*Professor Coyajee.*) Mr. Patel, you have been connected with the Ahmedabad mill industry for some years?—For the last 12 years.

5864. Are there any official statistics of the annual profits or annual amounts carried to reserves?—Yes, I think they are published in the Millowners Association Report of Bombay so far as Bombay is concerned.

5865. Annually?—Yes, annually.

5866. Now as an expert could you suggest what the average profits of some of these mills are, the average profits earned by your mills in Ahmedabad between 1914 and this year. Could you give us that? —Well I think the profits for the period from 1920 to 1924 might be far higher than the profits realised during years previous to that.

5867. What would they be on an average between 1920 and 1925?—The average with the previous years' profits?

5868. No, I mean in these five years?—In these 5 years they have gone up to the extent of about 100 per cent. but at the same time I have to explain this from a different standpoint. The system of starting mills in Ahmedabad is quite different from the system of starting mills in Bombay and Lancashire. In Ahmedabad the general system is that we depend much upon outside local credit. Therefore a mill would be started in Ahmedabad with a capital of say 3 or 4 lakhs; in Bombay the same mill would be started with a capital of about 10 lakhs and in Lancashire perhaps a mill with the same looms and spindles would be started with 15 lakhs. So in Ahmedabad I may give the instance of one or two mills, the Shorrock mills or the Ahmedabad Sarangpur mills. The first is a big weaving and spinning mill but the original capital was only 325 shares consisting of Rs. 3,25,000; so the money required for working as well as for extensions was brought by the system of credit by dividing agent's commission among the different partners and obtaining deposits. Now all this capital went to finance the whole mill and all the profits that were realised by this big mill went as dividends to these 325 shares worth Rs. 3,25,000. What I mean to say is that if that big mill even made a profit of Rs. 3,25,000 it could very easily distribute a dividend of 100 per cent., which would not be the case in Bombay, much less in Lancashire. So the calculation of percentage of dividend in one centre is not a real or true guide to be compared with other centres or other places. So when I said there were 100 per cent. profits in the Ahmedabad mills, I do qualify my statement by saying that it does not mean that the profits were made in ordinary circumstances, but under the special system in which the finances are sustained and the mills are established.

5869. Now for the same period could you tell us what percentage on an average was carried to reserves besides this distribution of profits?—I think the same amount might have been carried into the reserves; perhaps more but not less.

5870. Now you have got the managing agent system in Ahmedabad also?—Yes.

5871. How are the profits calculated. I would submit that the fees of the managing agents are not calculated as profits?—No they are debited to expenses.

5872. They are a part of the cost of production?—Yes.

5873. In other countries they would be called profits?—I don't agree with that because in debiting them to expenses as I have stated previously they do not go to the agents but to the partners of the agency firm who have financed the agency with funds; so like the shareholders the agent has to divide some of the profits which he realises from the mill. At the same time there are certain provisions in practically all mills that they have to let go part of their commission in lean years, and even in spite of these conditions last year some mill agents relinquished the whole of their commission when the mills were not in a position to pay dividends.

5874. In general the managing agent's commission is not considered part of profits?—No on account of these special circumstances, also they have to let go their commission in certain circumstances when there are no profits.

5875. Let us take the first 20 years of this century. Could you give us some idea of the average profits earned during that period?—For the whole period of 20 years ?

5876. Or any convenient period which might suggest itself to you as useful to be taken as one unit for calculating profits.—I think from 1900 to 1914 we may calculate the profits at the rate of 10 per cent.; from 1914 to 1920 we may calculate to the extent of 125 per cent.; and from 1920 to 1924 to the extent of, say, 70 per cent. I am talking of the average for the whole period for those years.

5877. (*Sir Rajendranath Mookerjee.*) Was it the same in Bombay?

5878. (*Professor Coyajee.*) He is talking of Ahmedabad?

5879. (*Sir Rajendranath Mookerjee.*) I want to know if it was the same in Bombay.—I think the same figures might be applicable to Bombay also.

5880. (*Chairman.*) How many companies are there in your Association, Mr. Patel?—About 75 mills and other kinds of factories.

5881. Are they 75 different concerns?—They are mostly cotton mills; about 56 cotton mills.

5882. Do they publish balance sheets and profit and loss accounts?—Yes, Sir.

5883. Severally?—Yes, each separately.

5884. They do not publish any general return for the Association?—No, we have no such return though we have in our files for the last 2 or 3 years balance sheets from several mills.

5885. Are those published balance sheets and profit and loss accounts obtainable?—They may be obtainable from the Registrar of Companies.

5886. But not from your Association?—I can consult my committee and give a final reply to that.

5887. Thank you; it just occurred to me that it might be of interest to some of my colleagues?—I shall let you know.

5888. (*Sir Norcot Warren.*) Mr. Patel, you suggested in the course of your evidence, an advisory board for the Imperial Bank. You know they have got a Central Board already?—Yes.

5889. Consisting of nominated Governors and Governors elected by the shareholders, a Government official and two managing Governors. In what way do you suggest that your advisory Committee would be an improvement on this Board?—Because the working of the Imperial Bank so far has not been in the eye of the people so successful as it ought to be.

5890. What do you mean by that?—The Imperial Bank has done rather the work of collecting money than of lending money in the interests of industries and the public.

5891. That I deny?—And also in my opinion the Alliance Bank affairs; I would not like to touch upon that now.

5892. What has the failure of the Alliance Bank got to do with it?—That creates an impression in the public mind.

5893. What impression?—That there should be some advisory board to guide this bank.

5894. But what has the failure of the Alliance Bank got to do with the Imperial Bank?—Well, certain assistance was given in a manner which was not very well liked by the people.

5895. (*Sir Norcot Warren.*) But you have not answered my question: how do you suggest your advisory board would be any better than the present Board? Where would you draw your men from? What class would you draw them from?

5896. (*Chairman.*) I think he has said he suggests a board consisting of somebody from the academic world, somebody from the business world, and a Government official.

5897. (*Sir Norcot Warren.*) How would a member from the academic world be an improvement on the present board?—So far as the theoretical part of the whole thing is concerned his advice may be useful.

5898. But there is nothing theoretical about lending money?—The whole system of currency and exchange is first based on theory in my opinion.

5899. But it is not worth much if you do not have practice too?—In that case they will work as dead letters on the board, and the board will not lose anything by it; in any case of emergency they may be consulted and their advice might be useful.

5900. I cannot say you have answered my question as to where the improvement comes in. What better men can you get?—I think the opportunity of getting better men will always be open to the world. If we hunt for men we will be able to get them. We should not feel that a particular limit has been reached in the world, in my opinion. If you seek for other people I think we shall be able to get more active people.

5901. You do not call the present Board active?—I do not say that, but I say that other active people can be found.

5902. Why should they be better?—Why should they not be better? It is my opinion that if we can get better men we should try and get them.

5903. (*Chairman.*) Apparently the witness is thinking of going farther and faring better.

5904. (*Sir Purshotamdas Thakurdas.*) Did you say there were 75 mills in Ahmedabad?—Including oil factories and such like.

5905. Cotton mills?—About 56.

5906. Your membership therefore is 56?—So far as the cotton mills are concerned.

5907. And Ahmedabad happens to be the next most important place not only in the Bombay Presidency but in all India regarding activity in cotton industry?—Certainly.

5908. Could you tell me if the personal information of members of your committee is restricted to management of cotton mills or whether it also extends in the sphere of the exchange market and the bullion market and the other concomitant factors which go to make one fit to discuss the exchange question?—Their direct connection is as far as the working of the mills is concerned; but at the same time when these questions do crop up, they have to look into the subject and to frame their opinions.

5909. You have followed the questions with intelligence as an ordinary layman, but you have not, nor do you claim for your committee any expert knowledge regarding the exchange questions?—Certainly not.

5910. Nor do I take it that you yourself claim any expert knowledge in connection with these matters?—Nothing beyond my lessons in political economy when I was in the B.A. class.

5911. That must have been some years back?—Half a generation back perhaps.

5912. I also see in your written statement that you refer with regard to certain views of your committee, to Mr. Madon and his rather exhaustive literature, and it appears that you have gone on such information that you have got from such publications?—Certainly.

5913. To that extent, therefore, your examination in the Commission regarding the exchange question and the reverse councils and all that must be taken with the necessary reservation that you have not that expert knowledge at your command?—Not practical knowledge.

5914. Nor of day to day handling?—That is so.

5915. You have stated to Mr. Coyajee the dividends that your mills paid during the last five years. If I remember correctly you said during 1900 to 1914, the average mill dividend has been 10 per cent.; from 1914 to 1920 I think you said it was 125 per cent.; and from 1920 to 1924 it was 75 or 80 per cent.—75 per cent.

5916. I would like to know whether you said this as a sort of guess or as the result of any actual tables prepared by your Association?—I have already made a statement before Mr. Coyajee, that I have not got any statistics ready with me. This is guess work which I just formulated considering the general factors.

5917. May we then put it on record that the figures you have given are pure guess work, but that in view of your intimate knowledge of these affairs your guess work may be taken as an approximate guess that anyone could make on the spur of the moment?—Yes.

5918. And until you submit to the Commission official figures worked out from tables, these of course should not be taken as reliable figures?—I agree.

5919. I wonder if when you mentioned those figures you meant profits or dividends paid?—Net profits.

5920. Which means that you paid less dividend than 10 or 125 or 75 per cent. as the case may be?—Some mills might have paid more dividend than these.

5921. Could you make an equally good guess with regard to dividends? Out of these percentages you have got to allow for deductions for depreciation, reserve fund, &c. That would present quite a different picture, Mr. Patel?—That is the whole average of all the mills.

5922. These are the net profits made by the mills after deducting all charges?—Yes.

5923. If depreciation and reserve fund were to be deducted from these the dividends would be considerably smaller than 10 per cent. or 125 per cent. or 75 per cent.?—As stated above, these are net profits.

5924. Would you mind telling us when the first mill was started in Ahmedabad, if you remember it?—Somewhere about 1885.

5925. Which means about 40 years back. You have given us figures of profits from 1900. Can you give us an equally good guess about the earnings between 1885 and 1900?—I cannot say.

5926. When you send those figures which you promised to the Chairman, would you include these figures also?—I do not think I have got any data to work out those figures; we have not got such records.

5927. Can you tell us, Mr. Patel, how many mills in Ahmedabad have gone into liquidation during the last three or four years or are on the auctioneer's anvil for sale?—About six.

5928. What was the reason of that? You gave the figure of profits of mills in Ahmedabad between 1920 and 1924 as 75 per cent. I think you are rather underestimating the number of mills in distress; I myself know 10, but that does not matter; let us take it at six?—If we take mills situated outside Ahmedabad the figure would be 10.

5929. They were all controlled by mill owners in Ahmedabad?—Yes. Not to-day.

5930. What was the reason of these 10 mills going into liquidation when the other mills were getting an average profit of 75 per cent.?—It was, in my opinion, mismanagement and speculation.

5931. From the very interesting narrative you gave us about how mills are floated in Ahmedabad, would it be a correct description to say that in Ahmedabad it has been customary to start cotton mills under-capitalised?—Yes.

5932. You start a mill and the agents identify themselves with the mills to such an extent that they stake all their credit and all their means in building up the mills, and employ fewer engineers and managers than we do in Bombay or in fact than is done anywhere else in India?—That is a fact.

5933. And that your management is so economical that you earn the encomium (I do not say that in any bad sense) that you are yourselves the worst sweated labourers in the mills, that you work there from morning till night; that is how you have built up this industry in Ahmedabad?—Yes.

5934. And there is no parallel to it in any other part of India?—That is a fact.

5935. That is a factor, therefore, that has to be borne in mind when one considers your figures of profits?—Yes.

5936. I shall therefore now restrict my questions to another aspect of the currency problem as you have told us that you have no expert opinion about exchange operations yourself, nor does your committee command any expert opinion. Ahmedabad has a fairly biggish bullion market, has it not, in Guzerat?—Yes.

5937. And it is the most important centre for that purpose?—Yes.

5938. With that at your very door, you have told us under question VI, "The people have learnt during the war and after that the rupee is very unstable in value and they have known long since that it is a token coin." And you end that paragraph with this sentence "It is no fault of the people of India if they are led to this practice, because they cannot have any confidence in the unstable token rupee." What have you based

this on; on your observation or on conversation? What is it that has led you to make this statement?—Observation and experience.

5939. Will you describe your experience and tell us how you came across it?—In my experience, and so far as I gathered information and opinion from other sources, the people were mad after gold to hoard it up and buy it at any price at certain periods, and they had no confidence in this token coin.

5940. What is the reason for their confidence being shaken?—Because they thought gold was the best security which could be converted at any time they require.

5941. You mean it had full value?—Yes.

5942. Whereas when the rupee was melted down it was not worth its full weight?—Only about 8 or 10 annas.

5943. Do you think the masses realise that?—I think they do, and that is why they go with rupees and purchase gold. Secondly, in my own experience certain people from the villages came and gave me their hoarded gold coins to hold on their behalf; and I advised them to cash the coins and put the money in circulation.

5944. In the Ahmedabad mills as deposit?—In the mills as deposit or in banks.

5945. What was their reply?—In some cases they did so to the extent of half the coins; in some cases they refused to do it at all; and I know of some people who have gold coins hoarded up for the last six or seven years.

5946. What is that mentality due to?—It is due to want of confidence in the rupee coin; they think that gold is always a thing of full value to them.

5947. That is the observation of your committee from day to day, and you have included that in your statement that you made here and which I just now read?—Yes.

5948. Now, regarding the question of currency notes *versus* coin, do you think the increase of currency notes in circulation is still going on, or do you think it has got a set-back?—I think it is at present to the extent of 190 crores, and it has not got beyond that.

5949. I know the total notes in circulation. But do you think that, when crops are being marketed at season time, the cultivator accepts currency notes more willingly now than he used to 10 years back?—Yes, he is accepting it more willingly now.

5950. What is the denomination of the currency note which your cultivator in Ahmedabad accepts?—Five or 10 rupees mostly.

5951. The smaller denominations. Why do they not accept the higher denominations, Mr. Patel; can you tell me?—Because when they go to their village they cannot get cash against hundred rupee notes; they would have to pay discount there.

5952. Now, do you think that, when a gold standard with a gold currency has been in operation for, say, a year or 18 months and the first novelty is gone, people will equally readily accept currency notes, or do you think they will want the gold coin?—I think they will want the gold coins for a number of years. If confidence is established within a shorter period, in that case they will accept notes.

5953. Take a year or two. When they have seen for a year or two that they can get the gold coin whenever they want it, would they accept the currency notes equally readily as at present, or do you think they will insist on having the gold coin?—I think they will take notes as readily as they do to-day, but I think in future they will take gold coin in a lesser quantity.

5954. That means their confidence in the notes will be strengthened?—Yes, their confidence will be increased.

5955. But one necessary corollary to this, in your view, is that they must be able to get the gold coin at the start fairly freely?—Yes, certainly.

5956. Now, regarding the question of hoarding, Mr. Patel, are you intimate with this system of hoarding on a large scale in Ahmedabad, or round about Ahmedabad?—No, I am not in close connection with it.

5957. But you did tell us just now that somebody came to you and asked you to hoard some sovereigns. Do you think this hoarding is scattered among many people or only among a few rich people?—I think it is more in the villages than among rich people.

5958. More in the villages than in the cities?—Yes.

5959. Now, regarding this hoarding, do you think much silver rupee is hoarded?—No, I think gold is preferred.

5960. That is, you think that, whatever silver rupees were hoarded have been changed for gold by now?—I think so to a great extent.

5961. You named the figure of 100 crores of rupees worth of gold which would be required before gold currency could be put into operation?—Yes.

5962. May I ask you if that figure was given to you by your Association or whether it is a figure which you have given yourself?—No, on reading certain books and literature on the subject that idea has come into my mind.

5963. Yours personally? I mean your Association has not discussed this question?—No.

5964. Nor did they give you any particular figure?—No. That is not mentioned in my statement anywhere.

5965. But as you said you were giving evidence on their behalf, I wanted to make sure whether this figure which you give was mentioned in the deliberations of your committee. I understand now it is only your personal figure?—Yes, obtained from books only.

5966. Now, I want to ask you one question, if I may, in connection with what you said about the raw cotton rates prevailing in India. The total crop of India, you would take at what—60 lakhs of bales?—70 lakhs of bales.

5967. Very well. Out of a total crop of 70 lakhs of bales, how much do you think the mills in India use?—22 lakhs of bales.

5968. Then there is the non-factory consumption, which you would like to take at how many lakhs—for charka, hand spinning, and so on?—Say about five lakhs.

5969. I think that is too low; take it at 15 lakhs. That makes 37 lakhs?—Yes.

5970. That leaves 33 lakhs of bales, Mr. Patel, for export?—Yes.

5971. Now, you, I understand, are a mill-owner yourself. Do you buy in any important cotton growing centres?—Yes.

5972. What sort of rate, Mr. Patel, does your agent pay for the cultivators' cotton? He pays a rate in competition with foreign exporter buyers, Japanese and European?—Certainly.

5973. Therefore, if a rate of exchange is fixed the foreign exporter need pay fewer rupees for cotton here, you the local mill-owners also pay fewer rupees?—Yes.

5974. Therefore, you get your cotton cheaper to that extent, Mr. Patel?—To the extent of transport charges.

5975. Excuse me. Which is the market rate at which you buy? Name any market where you buy?—Lyallpur.

5976. Very well, you buy your cotton in competition with the Japanese and continental exporter. The cultivator keeps back the cotton which he wants to keep for his own spinning, &c. Well, you are three competitors. Indian mills, Japanese and continental buyers. The exportable quantity you have yourself given as 33 lakhs of bales. I will take it roughly as half of the total crop. If the crop is 20 thousand bales, 10 thousand bales may be purchased by you. You will buy only in competition with the foreigner. If he must pay 12½ per cent. less for the produce owing to the higher exchange, you will also buy at that lower rate?—Certainly.

5977. Therefore, you agree with Sir Henry Strakosch that, as far as your 60 or 50 per cent. cost of raw cotton in the mill is concerned, you do make a saving?—Yes, certainly.

5978. (*Chairman.*) Sir Purshotamdas, the witness did not agree with Sir Henry Strakosch.

5979. (*Sir Purshotamdas Thakurdas.*) I therefore particularly wanted to follow up the argument, Sir.

5980. (*Chairman.*) Yes, but you see my difficulty, Sir Purshotamdas. The witness formally disagreed with that proposition when it was put by Sir Henry Strakosch. Now I understand he agrees with it?—Yes, at the end of the argument and after practical discussion, we have to agree. Because I didn't understand the question from the view point in which it has been explained to me now.

5981. (*Sir Purshotamdas Thakurdas.*) You do make that statement now?—Yes.

5982. Now, in your mills you use imported stores? The expense of that, Mr. Patel,—to name a figure which has been given to us by a prominent mill-owner—is about 7 per cent. of the total cost of your production. You make a saving in that also owing to the higher exchange, because you use imported stores. There is your 60 per cent. of cotton, on which you save 12½ per cent. There is your 7 per cent. of imported stores, on which you save 12½ per cent?—But we have to pay a 15 per cent. duty on that.

5983. That you pay whether it is 1s. 4d. or 1s. 6d. That is a common factor. The question is why do the mill-owners contend that the higher exchange is detrimental to the mill industry? You make a saving of 12½ per cent. on 67 per cent. of your cost of production. Why do you complain?—Because we don't get a sufficient price in the market when we go to sell our products, and therefore we are being affected by foreign imports.

5984. Manufactured articles? Now, it has been pointed out that the lower rupee rate by 12½ per cent. which you in common with Japan and continental buyers in India pay to the cotton cultivator reduces the buying capacity of the cultivator who is your best customer?—But it will reduce the prices also.

5985. The lower rate reduces the buying capacity of the cultivator, who is a valued customer of local mill cloth?—But he will get a better price for his exported article at the same time.

5986. We are now thinking of 1s. 6d. At 1s. 6d. you in common with Japan and continental buyers in India buy the cotton for 12½ per cent. less. Therefore the ryot has lesser rupees with which to buy your piece goods, he is your best customer. You spin and weave for the Indian cultivator—coarse count—and they may be at the back of the minds of your committee when they say that the mill-owners feel that for the cotton industry a lower rate is preferable to a higher rate of exchange?—Yes.

5987. A question was asked whether you would compare your demand for 1s. 4d. in preference to 1s. 6d. with the desire on the part of France to go higher from the low point which her exchange has reached. Do you think there is any parallel between the two cases? You have only asked for 1s. 4d. as restoration at the pre-war ratio. You are not asking for a lower ratio. There would be something to say for that parallel if you asked to go under 1s. 4d.?—Yes.

5988. Now, regarding the Imperial Bank, Mr. Patel, will you turn to the last paragraph but two of your written statement, just above Question 9. You say: "it should be made one of the conditions of the transfer that the Imperial Bank should issue such seasonal currency under certain conditions." What are the conditions?—Whenever the bank rate rises say it goes to 6 per cent., say five crores.

5989. But that is in existence to-day.—Yes, and then again when it goes to 7 per cent. a further limit may be given.

5990. That is in operation to-day.—Then further powers may be given to the Governor General in Council to issue emergency currency by an ordinance which may be withdrawn as soon as the crisis is over.

5991. You mean in times of crisis only? For a normal season and normal years you think a 12 crore limit is enough for your purposes? You are thinking of something very abnormal which may come up. But supposing we ask for your views regarding a year to year thing, then you don't suggest any change?—No, I don't think so.

5992. (*Chairman.*) Perhaps you will ask him, Sir Purshotamdas, what was the significance when he suggested an addition of seven crores.

5993. (*Sir Purshotamdas Thakurdas.*) You named 7 crores in reply to the chairman as an emergency?—That the power be given to the Governor General in Council to issue by an ordinance to the extent of 7 crores in times of crisis.

5994. What sort of crisis had you in your mind at that time?—Certain bank failures or some such definite crises in which people lose faith immediately. There are sometimes raids on banks. So, if there are five or ten or fifteen raids at such times of crisis, more currency will be required for the time being and in that case the ordinance will be useful.

5995. Mr. Patel, you tell us that you have been in business for fifteen years. Have you anything particular in view which happened in the course of the 15 years which makes you suggest this?—Well, last year in 1924 the bank rate went very high and at that time it was with great difficulty that the whole period was tided over.

5996. Yes, Mr. Patel, but that was not a crisis of the nature that you name. There was no run on banks?—That was in 1913, the run on banks.

5997. Oh, when the Indian Specie Bank failed. That is what you have in mind? I don't think there was any other bank that was in trouble, bar the Specie Bank which broke?—I believe India is a country in which sometimes a simple rumour creates trouble and people flock to their buyers and creditors to demand their money. So in this case of special emergency there may be a fear.

5998. But under the Government of India Act, the Viceroy is invested with the power to issue an ordinance any time he likes. So will that serve your purpose?—Yes.

5999. Now I want to ask you regarding this emergency currency of 12 crores: that as at present under the law can only be issued against genuine trade bills?—Yes.

6000. Do you think that trade bills worth 12 crores of rupees are ordinarily available to the Imperial Bank? I am asking you if you happen to know whether they are available or not? Will you take it from me that it is difficult to get those trade bills? In that case what would you recommend?—In that case there will be sight Hundis, 30 days, 60 days, 90 days.

6001. Well they are included in the trade bills; and even with those included, the amount cannot be put up to 12 crores by the Imperial Bank? If that was so, what would you suggest? Let me suggest to you one thing which has been suggested elsewhere by others. It has been suggested that the cash credits which are given to cotton mills should be converted into trade bills at such a juncture? Are you in any way familiar with the credits given by the Imperial Bank to mills?—I know of some instances.

6002. Do you think that in each one of these cases the mill which gets the cash credit from the Imperial Bank has got liquid assets behind it? Or do you know of any case where the Imperial Bank has given cash credits for the purpose of financing the capital debt of the mills?—I do not think they have given any cash credits for the financing of capital debts.

6003. Have you heard the complaint that the Imperial Bank has been very strict and would not

countenance any such request?—I think nobody has had the courage to put such a request because they are too hard for that. That is the reputation of the Imperial Bank.

6004. And therefore each one of these cash credits, Mr. Patel, is for all practical purposes a trade bill, backed by produce in course of manufacture or by manufactured articles?—Yes.

6005. And for all practical purposes you as a practical business man would say that there is nothing wrong in looking upon these cash credits as trade bills for the time being?—Yes.

6006. Have you heard anything regarding the Imperial Bank being ready to advance wherever such liquid assets have been available?—On the contrary I have heard that they are very loth to assist mills and factories.

6007. As a general statement, you make that statement?—Yes.

6008. You say that from personal knowledge?—Yes.

6009. You know the amount the Imperial Bank has lent in the last three years as compared with the previous period?—I do not know exactly.

6010. (*Sir Purshotamdas Thakurdas.*) I suggest to you that you revise that statement.

6011. (*Sir Reginald Mant.*) Mr. Patel, you said in reply to Sir Purshotamdas Thakurdas that with a higher rate of exchange the cultivator will get a smaller price for his cotton crop and will only be able to pay a smaller price for his cloth, and consequently the mills will suffer. Do you suggest that that would be a permanent consequence of the higher rate of exchange, or that that would only prevail during the period of adjustment until prices have been stabilized at the higher rate?—Would you kindly repeat your question?

6012. Do you suggest that the disadvantage to the mills will be a permanent result of the higher rate of exchange, or will only provail during the period that prices are adjusting themselves to the higher level?—If the rate of exchango remains high, then the effect will be permanent.

6013. Do you suggest that prices will never adjust themselves to the higher rate?—No, if the exchange remains the same, then it would be difficult.

6014. I think you accepted the position just now that a lower rate of exchange raises prices and a higher rate of exchange lowers them. After that adjustment has taken place, when prices have become modified in accordance with the new rate, the lesser number of rupees that the cultivator gets for his cotton will have a larger purchasing power?—Yes, but that can cut both ways.

6015. And his buying power will then recover?—It depends upon the surplus that remains with him. If the agriculturist has got sufficient to make both ends meet, in that case he will have no surplus, but if the amount which he gets leaves some surplus with him, then it will have different effects.

6016. Let us put it in this way. Supposing an agriculturist receives, with exchange at 1s. 4d., Rs. 45 for a certain amount of cotton. You raise exchange to 1s. 6d. He will then only get Rs. 40. The question I ask you is whether when prices have become adjusted all round, will not those Rs. 40 purchase just as much cloth or other commodities as the Rs. 45 which he got at the previous rate of exchange?—But those Rs. 40 which he obtained in that transaction will be remaining with him till that period, he will have to spend his Rs. 40 that he got for the first transaction, within two or three months.

6017. We are talking of the time when prices have become stabilized at the new rate. Let us assume that he then receives Rs. 40. Will not those Rs. 40 then have just as great a purchasing power as the Rs. 45 had before?—I think theoretically that is correct.

6018. (*Chairman.*) I think with reference to these questions we must remind ourselves that the questions we ask Mr. Patel have reference to his immediate practical experience.

6019. (*Sir Purshotamdas Thakurdas.*) One question, Sir, regarding the Ahmedabad mills. Mr. Patel, since 1923 you made a roduction in the wages of your mill-hands in Ahmedabad?—Since 1923.

6020. Was there any strike?—A very long strike of seven weeks.

6021. Do you think that if you made any further effort to reduce wages in Ahmedabad, there may be another long strike?—Certainly.

6022. To that extent, as far as the cotton industry is concerned, do you think that the adjustment that is necessary owing to the rise in exchange from 1s. 4d. to 1s. 6d. is complete?—No.

6023. How long do you think it would take before you get your wages down in Ahmedabad to complete the adjustment?—I think it will take two years more, and that too with a very strenuous effort. We have got there a very organized labour union, and they can put up a very bitter fight with us.

6024. You would then say that at the moment the adjustment necessary in the industry owing to the rise in exchange from 1s. 4d. to 1s. 6d. is not complete, and you are passing through a period of maladjustment still?—Yes.

6025. (*Sir Henry Strakosch.*) I have one supplementary question to ask. You mentioned that the Imperial Bank was very hard on the cotton mill industry because they are not willing to advance money for capital purposes. You think it is the business of a Bank to advance money for long term capital purposes?—I think, if the security is sufficient, they ought to advance.

6026. Even though the bulk of the liabilities of the Bank are withdrawable at short notice?—No, in that case I think one year's notice ought to be given.

6027. But then it is the business of a Bank to take money on deposit, and the bulk of the money taken on deposit is immediately withdrawable?—Yes.

6028. Therefore would you consider it the business of a Bank, a soundly-run Bank, to lend that money on long term?—They may fix certain limits,—that to the extent of so many rupees they may do this business so far as it is safe with them. Suppose they have to invest 100 crores. They may divide it into different classes, say 50 crores for industrial purposes, 10 crores for any other kind of loans, 10 crores for separate kinds of loans; and then they may decide that to certain mills or to certain other persons who are well secured loans may be advanced in this fashion. The selection may be with them.

6029. But would you kindly explain what the Bank would do if the depositors of short-term deposits all came along and wanted to withdraw those deposits, —having allocated their deposits in the fashion you suggest—what would the Bank do?—The allocation would be a comparatively small proportion of their total deposits. Only a very small proportion.

6029A. But would you regard it as the proper business of a Bank to borrow short and lend long?—Certainly not. But if they get surpluses to the extent of 20 or 30 crores to be invested, then in that case these kinds of loans might be advanced.

6030. But where do these surpluses come from?—They come from investment; supposing they have long trusts in addition to their annual deposits—then there may be certain other kinds of accounts, running accounts for a long number of years.

6031. That is to say, you would suggest that the Bank should only lend long if it gets long-term doposits?—Yes, or if they have got such funds or such reserves which are not like temporary deposits.

6032. So that it would be correct to say that you would advise the Bank to lend long-term only to the extent to which the Bank has received long-term deposits, plus their reserves, plus their capital?—Yes.

6033. Well, therefore, I suppose as it is not the ordinary run of the Bank's business to receive long-term deposits, that kind of business must obviously be very small?—I believe there are other kinds of secret reserves with Banks, other kinds of trust

reserves, and in that case they can safely tap those resources.

6034. Do you think that would be a proper way of employing their resources? The reserves are there to meet an emergency?—It is therefore that I fix a certain percentage; not the whole. Of the 100 crores say 50 crores could be loaned in long-term loans.

6035. You would prefer to deposit your money with a Bank that is very careful in lending money than with a Bank that is prepared to lend long for capital purposes?—But sometimes a too over-cautious Bank does not get business and the profits are less.

6036. (*Sir Henry Strakosch.*) We are not speaking of profits; we are speaking of security; the security is always greater with a Bank that is more cautious.

6037. (*Sir Alexander Murray.*) In connection with the statement which it has been suggested that Mr. Patel's Association might prepare, I suggest if possible that statement should show not only the ordinary capital but the preference capital, the debenture and other loan capital, reserves and other funds; I make the suggestion for the reason that I appreciate Mr. Patel's point that profits are actually earned on the total amount of money invested, although comparatively large dividends may have been paid on the ordinary capital only; and in that connection it would be well to know which mills were erected in pre-war years, which during the war and which subsequent to the war?—But I have in my possession balance-sheets of one or two years only, and I may simply submit copies of these balance-sheets. It will be very difficult for me to prepare a statement out of these.

6038. (*Sir Henry Strakosch.*) Could you supply us balance-sheets from 1919 onwards?—I have got figures only for two years, 1923 and 1924.

6039. But could you not apply to the Company for copies for those years, because it would be an interesting study?—Could you not obtain them from the Registrar of Companies? All the balance-sheets are filed there. If you ask in the office of the Registrar of Companies, you will get them.

6040. (*Sir Maneckji Dadabhoy.*) Sir Victor Sassoon told us the other day that he had copies of statement of profits for the last 20 years.

6041. (*Chairman.*) That is for the Bombay mills. I do not know whether he agreed to supply them. An application is being made to the Bombay Mill Owners' Association for such information.

6042. (*Sir Maneckji Dadabhoy.*) But the Ahmedabad statistics will not be of much use for us unless we get them for a very long period. Sir Henry Strakosch wants only from 1919, and I think that if we are to obtain them, we must get for a period of 25 years.

6043. (*Chairman.*) We must get what we can. I understand from Mr. Patel that he is not able to supply us with information for more than two years?—Yes; I have got it only for 1923 and 1924, and I can submit the balance-sheets which are in my file.

6044. (*Sir Maneckji Dadabhoy.*) That is no good.

6045. (*Chairman.*) We must discuss whether it is worth while making an application under those conditions?—Am I to send those balance-sheets?

6046. (*Chairman.*) Not until a communication is made. We are much obliged to you for your very full assistance to-day.

(*The witness withdrew.*)

Dr. B. R. AMBEDKAR, Barrister-at-Law, called and examined.

6047. (*Chairman.*) Dr. Ambedkar, you are a barrister-at-law, and you have been kind enough to furnish the Commission with a memorandum* in which your recommendations as regards the Indian currency system are set forth in detail. I think you have also been nominated as one of the representatives of the Institute of Social and Political Science?—Yes.

6048. Whose opinions have been set forth in another memorandum?—Yes, that is so.

6049. I understand that you are a close student of these questions?—I was 2 years before, but since I have been practising of course I have not been able to give sufficient attention to the very recent developments in currency and so probably my facts and figures might sometimes be rather out of date, but I should be able to tackle any point from the theoretical side of the subject, I presume.

6050. You have been a student of political science?—I was a Professor at the Sydenham College of Science for two years and I have written a book on the Problem of the Rupee.

6051. I should like to ask you a few questions to elucidate a few individual contributions which you make to the subject in the course of your memorandum. In sub-paragraph (i) of paragraph 2 you commence with he statement: "A pure gold standard is stable because the value of gold in circulation is so large", and so on. What are you referring to as "a pure gold standard" in that connection?—A pure gold standard means a gold currency as the standard of value.

6052. A currency consisting of gold?—Largely.

6053. Supplemented by some form of token currency?—By some form of token currency, yes.

6054. In so far as your opinion is based upon experience, can you refer to any instance in which a country has had a gold standard system with a large proportion of the circulation consisting of gold coins?—I may refer for instance to a country like Germany, and barring for instance the deposit of currency in England I should also cite the case of England.

6055. In both those cases we must recognise that the actual proportion of the circulating medium which consisted of gold was comparatively small?—May I say just one thing? What I want to emphasise there is that the new additions to the supply are so small in comparison with the existing volume in circulation that the new supply does not make much difference to the price level. That is what I really want to say there in that paragraph; but when you have a currency which is merely regulated by the will of the issuer, the issuer may add a new supply to the existing stock of such an amount that he may disturb the price level once established.

6056. The new conditions there referred to are, I take it, the increment of currency rendered necessary by the regular expansion?—No; I simply say productions of the mines when I talk of new additions to the gold supply.

6057. Then you are dwelling there upon the feature that the annual additions to the quantity of gold in the world are so small?—That it does not cause any upheaval in the price level to any appreciable extent.

6058. In what respect does that serve to distinguish between any form of currency where the internal unit is related in stability to gold?—I do not quite follow.

6059. In what respect does the circumstance as to the small proportionate annual addition to the world's gold supply to which you refer serve to distinguish, as regards this matter of stability, between a currency based upon gold in circulation, and a currency based upon the gold exchange standard? That is the second part of your paragraph?—There I say that when you start with a certain given price level and if your issue of new currency is entirely dependent upon the will of the issuer, then he may add such a volume of currency to the existing stock that he may disturb the price level materially. There is nothing to prevent him from doing that. May I give, for instance, an illustration: suppose a government was a bankrupt government and it wanted to finance certain of its departments, then it can very easily

* Appendix No. 29.

issue, for instance, a token currency of any sort and add to the existing volume of currency as almost all the belligerent countries have done.

6060. Now let us assume a country with a currency of a certain amount of gold in circulation, supplemented by notes in circulation; that is one proposal, I understand, in regard to the point to which you are leading up?—Yes, in a certain way.

6061. And, on the other hand, a currency based upon a gold exchange standard. Will you expand your recommendation by helping the Commission on this point: why this possibility of what is really inflation is more impossible when you have gold in circulation than when you have a pure exchange standard?—It is this: the fact that you have the liability of converting your paper currency into gold under a gold currency with paper in circulation is a means whereby the paper currency is kept within limits. You cannot add more paper currency to your circulation than what your reserves for convertibility would permit. But where under the gold exchange standard, as we have had in India, there is no liability upon you to convert your circulating media into gold you are free to issue as much as you like.

6062. Supposing (I start with a supposition) that you were to accept an obligation to convert your internal currency under an exchange standard into gold or the equivalent of gold in a foreign currency, would that, in your opinion, put the two systems in the same position as regards their capacity for resisting inflation?—It depends upon what kind of convertibility you adopt.

6063. I am supposing the acceptance by the currency authority, whatever it was, of a legal obligation to convert the internal currency on presentation into gold or the means of obtaining gold in a foreign currency in a gold standard country?—If your obligation is to accept to pay gold on tender without question then I think that would be sufficient. If I may say so, I mean that convertibility is like conscience and it might be of various degrees; and its efficacy to control the volume of currency would depend upon what kind of convertibility you have. If your convertibility is only for the purpose of foreign exchange then my submission is that that would not be a sufficient limitation on the issue of currency.

6064. If the obligation is such as that to which you have just referred, an obligation to convert the internal currency into a means of international payment, either gold or foreign currencies based on gold, why, in your opinion is that not an adequate means of preventing this danger of the inflation of currency with which we are dealing?—Because a foreign exchange is not necessarily an indication of internal inflation. For instance, in our own experience in India it has been found out, and it has been found out I think by Professor Keynes, that although the rupee remained at the ratio of 1s. 4d. for a long time, the level of prices in India and the level of prices in England were very different. Exchange cannot be said to be in complete harmony with the whole of the price level of a country. Exchange affects only such things as enter into international trade, and everything would really depend upon what is the volume and what is the ratio of the goods that enter into international trade and goods that did not enter. If the country is so situated that its internal trade is much larger than its external trade, in fact, if its external trade is insignificant. . . .

6065. What do you mean by the internal trade being larger than its external trade?—I mean that all the goods or all the transactions of a country are not meant for the purpose of foreign trade. In fact a country may have very little foreign trade and consequently the valuation of goods that do enter into foreign trade may not affect the valuation of goods that do not enter; the relations between them may not be very close.

6066. Let me generalise the question somewhat and put it in this way: whether you have a gold standard with notes and gold in circulation, or whether you have an exchange standard by which the internal currency is converted into external, is not the volume of internal currency in both cases controlled by the preservation of a certain ratio between the reserves and the internal token currency outstanding, and is it any easier to ensure the maintenance of that due relation in the one case than in the other?—I have been thinking more of prices rather than of exchange ratios. I quite admit that the exchange ratio between two currencies might remain the same and yet the internal price levels in the two countries may differ.

6067. Which two countries?—Any two countries; take for instance England and India; the ratio between gold and the rupee or sterling and the rupee taking the sterling as equivalent to gold, may remain the same; in fact it did remain the same for a long time; but taking into consideration the price level in the two countries, they did differ; although I admit that after some time the internal price level will assert itself and bring the foreign exchange ratio in line with itself.

6068. I think you are going a little in advance of the actual point with which I was dealing in my question, although no doubt you are referring to matters which are very relevant. Now let me put it from another point of view. As a matter of fact, if we consider countries in which there has been a currency system more approximate to that which you recommend than India has ever seen, have those countries under the stress of necessity ever felt the slightest difficulty in inflating when they felt the need to do so? Let me instance what occurred in gold standard countries in the war?—No; as I say, gold itself may be subject to inflation. It was as we found in America itself, subjected to inflation on account of the enormous quantity of gold in circulation then. Might I put it in this way? That convertibility for the purposes of foreign exchange is insufficient; that is the point I am driving at. Convertibility, if it is to be an effective convertibility, must be convertibility without question; it must be convertibility for all purposes, although if I may just say so I am not in favour of a convertible currency, as you will see from my memorandum.

6069. Possibly a certain confusion may be introduced by the analysis of convertibility into internal and external convertibility. What is essential, is it not, in a sound system of currency, now that gold is to be once more apparently accepted as the world's international payment, is that the unit of internal currency should be stably related to a definite gold value?—I do not quite accept that; it may be stable for international purposes; it might not be stable for internal purposes.

6070. I do not think I managed to make my question quite clear. I understand what is desired by you in your recommendations is that the unit of currency which is used internally should be stably related to a gold value?—I am really more for the use of gold. I am opposed to any kind of system which will economise gold under the present circumstances. Because I think that economy of gold is incompatible with security of price. My standpoint is very different from the standpoint of other people. I may be a little barbarous in my view.

6071. Not at all. Let us examine what your real idea is. What is your ideal to be attained in the organisation of the currency of a country? It is not that the internal unit should be stable in relation to gold?—Oh yes, it should be stable—not in relation to gold but stable in terms of commodities.

6072. By what methods do you recommend that India's internal currency should be stabilised, that is, in relation to what, and, secondly, by what methods?—It should be stabilised more in relation to commodities rather than to gold, which is used only for purposes of internal trade. And I say it should be done by stopping the coinage of rupees altogether, and prescribing the use of gold.

6073. If we reject gold as a standard of reference for the internal currency, what other standard of

reference are we to adopt?—That I have given here. That we should either go to the Compensating Standard of Professor Fisher or to the Tabular Standard of Professor Jevons. If you do not want to use gold and economise gold, then my submission is that you should go to one or other of those two.

6074. I am not sure that I am very intimately acquainted with Professor Fisher's standard, but are these both the same sort of proposals?—They are very much the same except that Professor Fisher's Compensating Standard—they are really what I should say, I mean, the two sides of the same medal, so to say. Professor Fisher would, for instance, alter the metal in the gold unit according to a certain index number, and Professor Jevons would allow more units to be given or less units to be given according to a certain index number. But I think those two are too complicated. I personally believe that a gold standard for all practical purposes is sufficient.

6075. Returning to what is practically possible, you are of opinion that the value of India's currency unit should be determined in reference to a certain quantity of gold?—No, my submission is that India should have gold in currency. Gold should not only act as a unit of reference.

6076. Let me pass from that and ask you another question. Let me now deal with the view which you advance, which I understand is best expressed in paragraph 4 of your memorandum, sub-paragraph (2), where you say: "The whole world is suffering from a continuous rise of prices owing to the depreciation of gold. Anything, therefore, that will tend to appreciate gold will be to the good; and if gold is to appreciate there must be a larger use of gold as currency." If I understand the precise force of that opinion, it is that the gold exchange standard tends to economise the use of gold, and that what is prudent and advisable is not that the use of gold should be economised and therefore that the gold exchange standard is bad?—Yes.

6077. And that is based upon the view which you take as to the future relation between the demand and the supply of gold in the world?—Yes.

6078. You are of opinion that the future supply of gold is likely to grow in relation to the demand?—No not grow; it will remain large because other people are not using gold, they are using paper, they are not in a position to use gold, so gold, even if it is not used, will remain large in quantity.

6079. First of all, a preliminary question in regard to that. Are you considering here the interests of India, or are you considering the service which India might render to the rest of the world?—I have both in view.

6080. You think that, by doing that, India will be serving her own interests and the interests of the rest of the world at the same time. Do you agree with the not uncommonly held opinion that a gold currency is an expensive system?—Yes, it is.

6081. So that we have to consider, in the first place, the possible disadvantage to India of the expense involved. What are the advantages to India to set against that expense?—It is that you get a more stable standard, which as Professor Cannan says is knave-proof and fool-proof.

6082. Now, as regards the prospect. The force of this contention would depend, would it not, upon the realisation of your anticipations as regards the supply of gold in the world at large?—Yes.

6083. Would you agree that, supposing on the other hand there was to be a relative decrease in the world's gold supply such as might tend to a general rise in world prices, that then it would be to the advantage of India, as of other countries, to economise in the use of gold?—Well, my reply is that we need not be afraid of an indefinite contraction. We have always got methods for increasing currency. We must guard against indefinite expansion which is always possible.

6084. If you have pegged the Indian currency definitely to gold through the gold standard and there is a relative diminution in the world's gold supplies, then any general fall in prices which must result would make itself felt in India also?—Yes, but that could be guarded against by increasing our paper currency or otherwise by manipulating the paper currency.

6085. Is not that sacrifice very characteristic of the gold currency system, for which you yourself have selected that system?—No, I am making gold the currency simply because I want to avoid the possibilities of indefinite expansion. As I say, you can always guard against an indefinite contraction. Falling prices can always be prevented.

6086. Now let me ask you a question as to the opinion you have formed that anything that would tend to appreciate gold would be to the good. Have you been able to arrive at any statistical estimates as to what the future of the relation between the supply and the demand of gold will be in the course of years to come?—Well, in my investigations I did some of them in 1923, when I was writing the book. I had occasion to read some articles which appeared in the Harvard Business Barometer Series and I rather got the impression that there was no likelihood of any fall in the production of gold. And besides, my point is this, that the countries of the world are using so much paper that whatever gold supply we have is really very large. Those countries therefore that can avoid economising gold might as well do it to their own benefit and to the benefit of the rest of the world.

6087. I am not quite sure that I follow the latter part of your reply?—What I say is that although the production of gold may not be increased physically from the mines, yet the use of substitutes for gold in modern days is on such a vast scale that the quantity of gold in the present circulation might appear to be large enough for a long period for the transactions of the world even without new additions from the mines.

6088. You have no more statistical calculations which you would care to put before the Commission as to your estimate of the future supply of gold?—No, I have made no estimates.

6089. This is a matter, of course, which is of great importance for the consideration of the Commission, so let me put to you one or two estimates that I have been supplied with from other sources. These are estimates as to the effect upon general gold prices of the movement of the relation between the demand for gold and the supply of gold for a period of years. They are forecasts made at various dates by authorities, and they are referred to the year 1930. What is done is to measure the effect of the gold supply upon prices by trying to forecast the general level of prices in 1930 by reference to 1913 as the 100 standard, and thus to see what the future of the world in this regard is. I have here an estimate of Sir James Wilson, made in 1921, who estimates that the result of these factors will be that the general price level in 1930 will be stable at 115. That is a substantial fall, you see from the present figure which is round about 158. Then there is that estimate to which you have already referred, the Harvard Business Barometer, in 1922, which estimates that in 1930 the general price level should stand about 150, and should be stable at that figure. Then there is Professor Gregory, who makes an estimate in the near past, May, 1925, who estimates that the general price level will stand about 162 in 1930 and should be rising at that figure. So he is the one who is most of your opinion. And, finally, there is Mr. Joseph Kitchen, an eminent authority, who in July, 1925, made a forecast that in 1930 the general price level should be expressed by a figure of 120 and should be falling at that figure. Of these four attempts to forecast the position, three anticipate that the prices will have fallen at that time; two believe that they will be stable at that lower level; one, Mr. Kitchen, be-

lieves that they will be falling at that lower level, and only one believes that they will be higher than they are now and rising. I will put it in this way. In view of these very careful attempts to estimate the situation does it not teach us the necessity of exercising great caution in making the assumption that it is unnecessary, in order to maintain prices stable, to economise the use of gold?—I am rather in favour of falling prices rather than rising prices, and I am glad if they do fall and fall rapidly too. I think it is good for the nation that there should be a fall in prices rather than a rise in prices. So these estimates do not really deter me from making my proposal.

6090. Nevertheless, there is some different basis for your opinion?—I take those opinions for what they are worth. I am not in a position to contradict them because I have never made any estimates. But somehow this is my belief that already the existing amount of gold is so large and the capacity of the countries of the world to use that currency, any currency, is so small that the supply of gold is likely to remain larger for a long period, and there is, in my opinion, not much chance of prices falling.

6091. Then there is a further question. I should preface it by saying that you are dealing here with the abolition of the exchange standard?—Yes.

6092. In paragraph 5 you say, "The gold standard reserve is peculiar in one respect, namely, this: the assets, *i.e.*, the reserve and the liabilities, *i.e.*, the rupees are dangerously correlated by reason of the fact that the reserve cannot increase without an increase in the rupee currency." I am going to ask you to expand that a little, and in order to show you what I think needs expansion, I would put these possible questions by a critic. Might not a critic say: you say that the reserve cannot increase without an increase in the rupee currency, and this critic might say, why should it? He would say, if the rupee currency cannot increase without an increase in the reserve, would that not be a most desirable state of affairs? Have you followed my point?—I will explain in this way: for instance, there are the bank issues and the reserves of a bank. If you compare, for instance, the bank reserves with the bank issues and the currency and the gold standard reserves of the Government of India with the rupee issues, you will see this: that when the bank issues are limited, the reserves increase, and *vice versa*. But here you cannot, for instance, reduce the rupee currency without also reducing your reserve.

6093. My point is this. I say, all right, but look at it from the other point of view. However that may be, what appeals to me is that you cannot reduce your reserves without reducing your rupee currency, and that is what I desire to effect?—Quite true, I admit that. But my submission is this. What is the use of a reserve, really? Suppose you have an enormous reserve and you have also an enormous rupee circulation. Does the fact that you have a large reserve in store in some safe in any way affect the value of the rupee? It does not. The value of the rupee will be affected simply by its quantity and the volume of circulation. Its value has nothing to do with the reserve at all. Backing absolutely has no effect on the value of currency except, of course, in times in which it is disorganised. It may lead to some confidence in that currency, but I submit that when currency has come to such a pass that people have to have some confidence, I say that currency has been absolutely inflated.

6094. Accepting, no doubt, the proposition that the value of the currency will be ultimately decided by its total volume in relation to the business?—What I say is this, that this relation is so dangerously correlated, and I am sure you cannot indefinitely go on coining rupees simply because there is a gold reserve. If you go historically into this matter, my submission is that such has really been the case. In the history of India people who have had to deal with currency were so much infatuated by the idea that they must have some reserve that the coinage of rupees was really initiated for that purpose. The coinage of rupees in India in 1893 and 1898 when the Fowler Committee's Report was brought into operation and reforms were introduced is a point. Sir Edward Law was so much obsessed by the volume of rupees in circulation that he felt that there must be some reserve, and it was on this ground that he proposed to the Secretary of State that the Government should be allowed to coin rupees. If he knew properly that the value of rupees would maintain themselves if they were limited in volume, then he would certainly not have gone on increasing the currency. I am recommending simply what the Government of India recommended to the Secretary of State in 1893.

6095. To turn to the immediate point: the function of a reserve under these conditions is to maintain stability, is it not?—I think a reserve ought not to be there. A currency is something like any commodity which maintains its value simply because of the law of supply and demand.

6096. Do you reject the proposition that the function of a reserve is to maintain stability?—Yes, I do. I do not think a reserve has anything to do; in fact, a reserve maintains itself when the currency is limited; it does not maintain the currency.

6097. Let us now consider your practical proposals for the reform of the currency. You say:—"The following, then, are the requirements of my plan for the reform of the Indian currency:—(1) Stop the coinage of rupees by absolutely closing the mints to the Government as they are to the public. (2) Open a gold mint for the coinage of a suitable gold coin. (3) Fix a ratio between the gold coin and the rupee. (4) Rupees not to be convertible in gold and *gold not to be convertible in rupees*, but both to circulate as unlimited legal tender at the ratio fixed by law." A question which does suggest itself to a practical man there is, under those circumstances, how are you to maintain the ratio between the gold coin and the rupee, and how are you to prevent one going to a discount or a premium in comparison with the fall in accordance with the balance of the country's trade?—Well, the rupee will maintain its value by reason of the fact that it will be limited in volume; no more issues of rupees are to be issued.

6098. What is to prevent it going to a premium?—It cannot at once go to a premium because it has a substitute in gold. Rupees are not to be convertible in gold. The rupee cannot go to a discount because it is limited in volume. No more rupees are to be coined. The rupee cannot go to a premium because there is the alternative of a gold coin functioning as currency.

6099. Then you say:—"But there is just this chance: that the existing volume of the rupee currency is so large that when there is a trade depression it may become redundant and may by reason of its excess lose its value. As a safeguard against such a contingency, I propose that the Government should use part of the gold standard reserve for reducing the rupee currency by a substantial margin so that even in times of severe depression it may remain limited to the needs of the occasion." How would that operation take place?—You simply call in rupees and not issue them again—by the process of calling in rupees up to a certain limit.

6100. So that the rupee would not, to that extent, be convertible into gold?—It will never be convertible into gold, until the limit is reached, so that it will never be in excess even in times of depression—the rupee will not be convertible into gold and gold will not be convertible into rupees. Even as it is, I am not very much afraid that the rupee will go to a discount, but there is just this chance that it might. and I therefore propose that safeguard.

6101. Coming then to the question of the ratio, you say: "In European countries the problem is one of deflating the currency, *i.e.*, appreciating it; in

other words, of bringing about a fall in prices. In India the problem becomes one of inflating the currency, *i.e.*, depreciating it; in other words, of bringing about a rise in prices. For a change from 1s. 6d. gold to 1s. 4d. gold means this and nothing else. Should the currency be inflated to reach back the pre-war parity?" Then you point out that the restoration of the pre-war parity is not a restoration of the pre-war price level because there is a change in gold prices?—Yes.

6102. Further, you point out that: "Two things must be borne in mind in this connection. Existing contracts include those made at every stage of preceding depreciations and appreciations, and to deal fairly with all would demand that each one should be treated separately—a task impossible by reason of its complexity and enormity." I understand that the opinion which you emphasise there is that we have been passing through a period of violent fluctuations in the value of the rupee, that at every stage contracts have been entered into, and that it is impossible, as it were, to fix upon any definite ratio which will do justice as between all these contracts made at the varying levels?—Yes.

6103. Then you say that the great bulk of the contracts have been of recent date?—Well, my information is really based upon a small note made by Professor Cannan in one of his articles in the "Statistical Journal."

6104. Are there any statistics available which would give us a correct estimate of the number of contracts?—I think it is a guess for what it is worth; a question of commonsense.

6105. Then you say, "It may be said that the centre of gravity of the total contractual obligations is always near the present." Those premises lead you to the following conclusion, that, given these two facts, the best solution would be to strike an average between 1s. 4d. and 1s. 6d. and say that it is nearer 1s. 6d. than 1s. 4d. I am not sure that I quite follow that. Your trend of reasoning would rather have led me to suppose that you would finally turn out to be a supporter of the 1s. 6d. rate?—I say it may be nearer 1s. 6d. and away from 1s. 4d.

6106. What ratio would you suggest?—It is difficult. Of course, I think 1s. 6d. would be just as good. It could not inflict any very great hardship.

6107. Then, finally, as regards the question of a rising and falling rupee ratio, your opinion is summarised in paragraph 9. You say: "Now if it is realised that a low exchange means high internal prices, it will at once become clear that this gain is not a gain to the nation coming from outside; but is a gain from one class at the cost of another class in the country." Which class gains and which class loses?—The business class gains; the labouring class does not. The price of all factors of production does not change. Wages do not change as rapidly as prices and these are the classes who suffer.

6108. Have you any suggestion to make, either from the theoretical or practical point of view, as regards the important provisions as to the currency arrangements to provide elasticity to meet seasonal demands?—As I hinted, of course, very briefly, if we want to make our currency elastic for seasonal purposes, we must somehow see that the commercial paper which has given rise for trade transactions is converted to currency. So that commercial paper should be made more a basis for the issue of the currency than Government bonds. I think it would be to the good of India if we adopt the proposals in the German Imperial Bank. They adopted, of course, more or less the English Banking Act of 1894 with variations so as to suit the seasonal demands.

6109. That is a provision for the extension?—For the extension for the time being of paper issues under certain regulations.

6110. That is a provision, is it not, for the extension of the fiduciary issue?—Exactly.

6111. In return for the payment of a proportional tax?—Yes, I think it is a sufficient safeguard for both.

6112. (*Professor Coyajee.*) The chief merit of the gold standard is, according to you, that it places certain definite limitations against possible fluctuations?—Exactly.

6113. But, of course, there are certain things, for example, the provision from the mines is not based on how much currency is required by a country?—Yes; I may say that I am in favour of a gold standard simply because compensating systems are not workable. If they are workable, I would at once reject the gold standard. I am not in love with it at all.

6114. Nor does the gold standard ameliorate the consequences of a trade cycle?—No.

6115. Then there is only one point. In paragraph 5 you observe "I am necessarily in favour of the abolition of the gold standard reserve as being of no practical use for maintaining the stability of the currency." By analogy why not abolish the paper currency reserve also because the value of the paper depends upon its limitations?—Quite.

6116. Would you abolish that?—No, for this reason. Because we are not placing a fixed limit on the issue of paper. Under the scheme where I say we should abolish gold standard I am placing a definite limit on the issue of the rupees. In the case of paper currency, we have allowed the Government the discretion.

6117. Do you think that possible? I will tell you why. Because with limited incomes and things like that, there is more scope as population increases for the use of the rupee. Could you say for ever and for ever, we shall be coining gold and no rupees until possibily the quantity of gold in circulation will be ten times that of the rupee? Would that be convenient to the country?—I should think it would be. I would rather say that instead of using gold we use notes backed by gold. I do not mean that we should use gold from hand to hand.

6118. (*Sir Norcot Warren.*) Am I to understand from the latter part of paragraph 8 of your memorandum that you are inclined to the rate of 1s. 6d. rather than 1s. 4d.?—I confess prediliction in favour of 1s. 6d.

6119. (*Sir Alexander Murray.*) There is one point, Dr. Ambedkar, which you referred to in answer to some questions put to you by the Chairman; you seem to suggest that the Government of India were somehow or other prepared to go on coining rupees simply in order that they may make profit between the bullion value and token value of the rupee. I want to know what you are referring to actually?—I am referring to this: It is a historical bit of thing. When the Government of India, for instance, introduced reforms suggested by the Fowler Committee, they felt that for a large circulation of the rupee they had not any reserve and the Fowler Committee in paragraph 60 of their Report suggested that if the Government coined rupees and keep profit to itself, that profit should be utilised as a reserve. Sir Edward Law who came on the scene in 1901, the period from which the coinage of rupees commenced, also felt that the volume of rupees was so large that some amount of reserve was necessary; and I think he went on coining rupees sheerly because he felt that the reserve was wanted and the reserve could not be had in any other way except by coining rupees.

6120. You only *think* that?—No, my point is this: I have read the despatch very closely and I feel that if Sir Edward Law had disclosed there that the rupee was coined to a premium because people did not want gold or any other thing to use in currency, then I could have understood that the rupee was coined in answer to the demand of the people. But there is not a single thing to that effect to be found in the despatch. He simply says that when we introduced reforms we did not take into account paragraph 60 of the Fowler Committee's Report.

6121. But he also, I think, in that despatch to which you refer laid down that there ought to be a gold reserve which estimated at 7 millions or something like that. Against this you say that he was issuing rupees?—Quite so. Gold standard reserve is kept in gold. I say no reserve was wanted.

6122. You make a general statement here, Dr. Ambedkar, "Unfortunately there is abundant proof of such perversion in the history of the currency system in India. Already we have had foolish administrators who had been obsessed with the idea that a reserve was a very essential thing and who had therefore gone on issuing currency without any other consideration but that of augmenting the reserve" and you are now repeating it to the Chairman?—I have used a much milder expression than that used by Professor Cannan himself in his book.

6123. But is it not the case that in 1895 that was actually suggested by a well-known Bombay financier and turned down by the Finance Member at the time?—I find that in the despatch.

6124. One moment. In your book you actually give the name of the Bombay financier who suggested it and you give the name of the Finance Minister of the Government of India who turned it down?—Yes.

6125. Then in your book you also give the name of a well-known politician who as recently as 1907-08 suggested the same thing and again it was turned down by the Government of India and as recently as 1919, you give a reference to another well-known economist. Then why do you repeat the statement to the Chairman that the administrators of the Government of India have not thrown overboard or turned down the suggestion when as a matter of fact you know that the administrators of the Government of India have turned it down repeatedly when it has been put forward by well-known Indian financiers?—My reply to that is this: that somehow if you read the speeches in the budget delivered by every Finance Minister, for instance, I forget the names now, gentlemen who preceded Sir Edward Law; I think I can cite instances.

6126. Sir James Westland and Sir Clinton Dawkins?—But they never agreed with that.

6127. No; it was suggested by an Indian to Westland who turned it down and again to Dawkins who turned it down?—With due respect to your interpretation, Sir Edward Law did say that there should be gold standard sufficient to back all the rupees and the notes. I do not deny that. But I simply say this; that other financiers stated that no reserve was wanted and the rupee would maintain itself and Sir Edward Law stated that the reserve was wanted and he coined rupees because he wanted the reserve. In fact, I have paid sufficient compliments to the training and the notions of Westland and Dawkins for turning down the proposals. I say they were right and Sir Edward Law was certainly wrong.

6128. Sir Edward Law did not say that he coined rupees in order to provide the reserve. He said that he should hold it as a backing against the issue. It is you that put in the interpretation that he did coin rupees for the other purpose?—He says that in the despatch. Before the Fowler Committee there were sufficient proposals of having a gold reserve and the Committee found that they were very costly, but slightly hinted that if a reserve was wanted, it might be had by coining rupees. The two gentlemen who preceded Sir Edward Law did not think it was necessary. But Sir Edward Law said it was necessary and coined rupees. I am not making a general charge. I have given praise where it is due. I can give you also the reference.

6129. I can verify all your references. What do you want to find there?—That although the recommendation of the Fowler Committee was there that the Government of India could provide itself with gold reserve by coining rupees, Westland and Dawkins refused to pay any heed to that proposition, because they firmly believed that gold reserve was not necessary and that the rupee being limited in quantity it could maintain itself. But Sir Edward Law when he became Finance Minister felt that a reserve was necessary.

6130. Westland was the Finance Member before ever the Fowler Committee reported. I think he was away when the recommendations were brought into operation and Dawkins was the member in office when the Fowler Committee reported. But both of them turned down the suggestion which came from Indian politicians?—There is no difference of opinion on that point.

6131. The only difference is that you are imputing to Sir Edward Law that he coined rupees in order to create a reserve. I say that he did not; that in the actual despatch he said that there was a gold reserve, I think, of 7 millions?—If so, there is a difference between us.

6132. (*Chairman.*) I cannot see what conceivable advantage it can be to anybody to increase a reserve for the fun of the thing?—Exactly, and people are under very big notions that a reserve is wanted and without a reserve a currency cannot work. I think it is a very common superstition. It is there.

6133. (*Sir Alexander Murray.*) I will give you the reference, pages 276 to 278 of your book, "The Problem of the Rupee"?—Yes, Westland was there when the reforms were brought into being, page 276.

6134. It was in 1895, he turned down the suggestion?—No, I may refer to the budget speech of 1898-99, after the reforms were introduced.

6135. What date was that?—It is the Budget speech of 1898-99 after the reforms were introduced.

6136. It was in 1894-95.—No; Dawkins comes on the next page. My reference is to the Financial Statement for 1898-99 at page 276. Then the passage from Sir. Edward Law occurs on page 278.

6137. Will you excuse me for correcting you. You said your reference was to the Budget speech of 1898-99. As a matter of fact the reference you have made is from the speech of 1894-95?—He was also Finance Minister in 1899.

6138. He turned it down in 1894-95?—I mean there was no material difference between the Herschell Committee and the Fowler Committee and I am sorry if you think I have made any vile allegation against the gentleman.

6139. (*Sir Alexander Murray.*) All I am doing is quoting what you say in paragraph 5 of your statement. All I say is there is danger of anybody falling into that trap.

6140. (*Chairman.*) And you maintain that in your book you have vindicated these eminent statesmen?—Yes.

6141. (*Sir Purshotamdas Thakurdas.*) In paragraph 8 you refer to various countries of the world as "hankering for a return to the pre-war parity" and you say it seems to be universal. Then you go on "There is but this difference between India and the other countries. The other countries have yet to reach the pre-war parity. India on the other hand has in fact over-reached the pre-war parity." Those other countries to which you refer have had their currency very severely depreciated during the war?—Absolutely.

6142. Not the solvent countries?—I think those countries also which are very near their old parity find it difficult to go back.

6143. For instance, which countries have you in your mind?—Well, I am talking of the proceedings of the Genoa Conference, which I do not carry in my mind, but I think for instance a country like Italy. France was at one time within measurable distance of pre-war parity.

6144. France now is perhaps worst off of all; therefore you are there remarking a difference between India and other countries whose currency was severely dislocated during the war period and who have not yet been able to bring it round?—My point

is, even if we were in a position to go back within a measurable distance it would not be always wise or advisable to go back supposing we could.

6145. I will come to that later on; I am only trying to point out to you that it may be said the comparison you are stating here between India and the other countries is one which cannot stand as far as currency problems and conditions are concerned. So far as the "could" is concerned, I mean the difference between whether we should and whether we could even if they (those countries with depreciated currencies) wanted to they could not go back?—Very good; you have put it much better than I could have.

6146. Therefore if you compare India with the countries which got back to pre-war parity you find that those who could did go back to the pre-war parity?—Yes, for instance England; but there was also a strong current of opinion even in England that they should not.

6147. I mean in spite of the strong current of opinion you refer to they have reconciled themselves to the pre-war parity and you do not hear much complaint now about having gone back?—I could not tell.

6148. You do not know, I see; unless it can be said that those who went back made a mistake, there won't be anything particularly objectionable against those in India who want to return to the pre-war parity?—No, I don't say that. I am really raising the question whether it is desirable.

6149. Now regarding the desirability of it, lower down you say the view is wrong; you say both these views aro fallacious. You say the restoration of pre-war parity is not a restoration of the pre-war price level. Now do you think that exchange should be used as a lever for attaining price levels?—No.

6150. Then, it does not appear to me very fallacious?—No, I say this, although you cannot always say exchange and price level move together, yet . . .

6151. Excuse me, my question was, do you suggest that oxchange should be used as a lever for adjusting price levels?—No, I do not say that.

6152. Therefore a change of ratio from that point of view was not desirable, as a lever for the adjustment of prices?—Yes, it was not.

6153. No country has done it unless you can show that it was particularly desirable in the case of India as an exception?—But it has happened in all countries.

6154. Which countries?—All countries.

6155. If I may make my question clearer . . .?—I do not think your question was put very clearly.

6156. I sometimes do put my questions not very clearly, I admit. Which countries which could attain to pre-war parity did voluntarily go past it in order to adjust their internal price levels?—No, of course they did not do that.

6157. Therefore where is the fallacy?—Fallacy in this sense: some people in doing this imagine they are going back to the old price level. That is a fallacy, because 1s. 4d. in 1914 is not the same as 1s. 4d. in 1925.

6158. But I mean those who do not base the demand for 1s. 4d. on the question of prices at all, they would not be making that fallacy?—No.

6159. Then lower down you mention another point, I think. "If by restoring pre-war parity is meant the restoration of the pre-war level of prices, then the ratio instead of being lowered from 1s. 6d. in the direction of 1s. 4d. must be raised in the direction of 2s. gold." Then you say "the restoration of pre-war parity even nominally would be unjust." What have you in your mind by the words "even nominally"?—Without looking to the price level.

6160. I thought you yourself agreed . . .?—Supposing now, in 1925, 1s. 4d. is the ratio as compared to 1914, that would be only a nominal change because prices have certainly changed.

6161. Where is the nominalness in regard to those who ask for 1s. 4d. as being the pre-war rate?—You are asking for a definite change from 1s. 6d. to 1s. 4d. I take my starting point, as I have stated at the end of the statement from what we find actually there. I say, "In short, in matters of currency the real is the normal." I therefore start from 1s. 6d. as the normal.

6162. Now supposing the exchange to-day, when we are discussing the thing, was 1s. 8d., I take it you would urge the same ground for 1s. 8d. being confirmed as you have for 1s. 6d. being confirmed?—Yes.

6163. So whether exchange had gone up to 1s. 6d. or not the ground would prevail irrespective of what other countries have done; and irrespective further of how that point was reached?—May I just explain it in my own way?

6164. If you please.—The way in which I look upon this problem is this. To-day we have 1s. 6d. That to my mind means a certain price level. If you want us to go back to 1s. 4d., it seems to me we have to raise our prices. Without increasing the volume of currency we certainly cannot reach 1s. 4d. gold. Therefore the complete question to my mind is, shall we raise our prices from what they are to-day, so that wo can go back to 1s. 4d.? Now I being a member of the labouring community, feel that falling prices are better. That is my view of the matter.

6165. Let me take it the other way. You say, as you put it, that, being a member of the labouring community, that means from the point of view of the labouring class it is undesirable?—Yes, and I may go further and say that from the national point of view too falling prices are better than rising prices.

6166. Now I suppose you heard the arguments that are being advanced that a high exchange, an exchange which is worked up to a higher point than where it has been 15 or 20 years at a stretch is undesirable in the interests of the producer. What would you say to that?—All that it means is a depression of profits. I do want to make a distinction,—I do not know how far people will appreciate that,—between depression of industry and depression of profits. I think that distinction was made by Professor Marshal in his evidence before the Gold and Silver Commission. There might be a depression of profits, that is to say, the enterprising class may not get all that they would get if prices were to rise; but it does not necessarily follow.

6167. Excuse me; cannot I refer to the producer? We will come to the investor later if you don't mind. But what about the producer: in his case the higher the exchange the less the number of rupees available to him?—It doos not matter to him at all, because he spends it. His cost of production also falls; therefore it makes no difference. If he got 15 rupees, and if the 15 rupees purchased a certain amount of goods, and if five years hence he got 10 rupees, and that 10 rupees purchased as much as 15 rupees before, the change is only a change of counters.

6168. When the adjustment is complete? But until then there is disturbance?—Yes.

6169. Now let us look at it as far as the present goes. You think that the average Indian cultivator rarely employs any labour and cultivates with his own hands?—Well, I suppose he does employ a certain amount of labour.

6170. In the ordinary course, for the adjustment to be complete, you would expect that the wages he pays to his labourers also go down?—Yes. I mean if he wants to get the same amount of profit, I would say yes.

6171. Very well, if the wages of the farmer's labourer have not gone down you would admit that to that extent the farmer has a smaller profit?—Smaller profit, yes, I admit that.

6172. And in cases where the farmer is just able to make both ends meet he loses?—No. He does not get profits, but he does not lose. Profit is something else; it is surplus.

6173. Where a farmer or a class of farmers in a district make just enough to make both ends meet they would be losing, inasmuch as the labour charges have not gone down in proportion?—I do not know how you define profit. I define profit as surplus income.

6174. After paying all charges of production?—Yes.

6175. If in 1921 a farmer made both ends meet and in 1924 when exchange was stabilised at 1s. 6d. as far as his produce is concerned and his labour charges have not gone down, he would certainly make less?—He would lose part of his profits.

6176. He will save so much less?—I would stick to the word " profit."

6177. He will make less profit?—Yes; there would be a depression of profit.

6178. To that extent of course the producer will be a loser?—If you think that he had a legitimate right to that profit, then of course you would be right in saying that he loses; but not if it was a merely differential gain.

6179. At 1s. 4d. it was merely a differential gain?—Yes.

6180. Lasting for a period of 25 or 23 years?—As I say it all depends upon how you define it.

6181. How would you define it yourself?—So long as he is able to recover all that he has spent in production I do not think that he would be a loser.

6182. And you would apply that test to every person?—I would say that he has made both ends meet.

6183. Do you think that would be the maximum which the average citizen would like to apply in his own case?—I can give no opinion upon that, I am afraid.

6184. Now, you mention in paragraph 8: " Two things must be borne in mind in this connection," and lower down you say: " Existing contracts are no doubt of various ages." What sort of contracts have you in mind there?—Leases for instance: and other contracts also, such as building contracts and so on.

6185. How would they come in with the question of exchange?—They are money contracts just the same; they are all money contracts.

6186. Every contract, then, you mean?—Yes.

6187. If a man was putting up a house in a mofussil rural place for 4,000 rupees, that also would come under this?—Of course; it is investment of money.

6188. You have in mind everything that involves investment of money in the country?—Yes; it has purchasing power.

6189. Then you say: " Given these two facts, the best solution would be to strike an average between 1s. 4d. and 1s. 6d." Why did you mention an average instead of 1s. 6d.?—I say so because in 1925 there may be some contracts which were made when the ratio was 1s. 4d. Some contracts may be still subsisting made at that period when the purchasing power was at the rate of 1s. 4d., and therefore to give justice to all I think that is the best way it could be done.

6190. What about contracts in the shape of debts incurred before 1914?—I do not suppose there are many existing now.

6191. You think that all these debts payable by agriculturists to sowcars are paid within a certain period?—My personal opinion is that no commercial contract extends for more than five years, and the proportion of those is very very small. There is no statistical information on this. Professor Fisher has made in his book certain calculations to that effect. He writes there that the rate of interest varies sympathetically with the prices; so that the rate of interest bears a certain relation to the rise or fall of prices. He then comes to the conclusion that most contracts are very very recent commercially.

6192. You mean about India?—I mean generally; I do not know about India in particular; there may be something peculiar in India, but I do not know why it should be so.

6193. Do you think things in India may be different?—I should not think so unless there was some evidence forthcoming that that was so.

6194. You think that the problems in India are the same as in the West?—I do not see why they are not.

6195. It would surprise you if thoy happened to have been admitted to be otherwise?—It would surprise me.

6196. Regarding the adjustment of price levels, do you think that the adjustment is anything near complete now, owing to the disturbance in the exchange rate from 1s. 4d. to 1s. 6d.?—There would be some disturbance; that would be detrimental to the wage-earners if we went back from 1s. 6d. to 1s. 4d.

6197. The disturbance from the lower to the higher rate from 1s. 4d. to 1s. 6d. . . . ?—Has been favourable to the labouring classes.

6198. Is that adjustment complete, or is there still any maladjustment of that?—I could not say; that is a matter of statistical investigation which I have not entered into; but I suppose exchange has been stable at 1s. 6d. for a long time.

6199. How long do you think it has been stable?—I cannot exactly say; but certainly it shows signs of stability.

6200. How long; have you any idea? Some witnesses have said six months, some eight months . . . ?—I think somewhere there.

6201. Do you think that that six or eight months is a sufficient period for judging this stability?—I say due weight should be given to it, and therefore that you should strike an average.

6202. But I think you have said in the course of your oral examination that you would be prepared to agree to 1s. 6d.?—Yes, because it is nationally better; it would not inflate. That is what I say. If, even after 1s. 6d., the process of adjustment was not complete so as to enable us to say 1s. 6d. was really the level needed, I say we should establish it at that.

6203. Regarding the adjustment in the industries here, have you any idea at all? Can you give us any opinion?—None whatever.

6204. (*Mr. Preston*): In case there should be any misunderstanding with regard to some of the answers which you gave to Sir Alexander Murray, in connection with that unfortunate reserve, the gold standard reserve, it may be well if we put on record some actual facts: the gold standard reserve came into being in the year 1901 and it resulted from profits earned from the previous April in 1900. The balance in the reserve to-day is 40 millions sterling, is it not?—Yes; I think it is about that.

6204A. The Finance Minister when he made his report on currency last year made the following statement: " As will be seen from the statement, the bonds and stock purchased are due for repayment within the next few years. Of the amount now standing at the credit of the reserve, £27,449,950 represents profits on coinage and the remainder represents accumulated interest on securities held in the reserve." You say that this reserve cannot increase unless there is more rupee coinage. How has that increase of one-third in the last three years come about?—By interest on investments.

6205. Then if the interest on that reserve is kept being added to it, you are increasing that reserve for a useful purpose without having to adopt those methods which you so very strongly deprecate?—Yes, undoubtedly.

6206. Just one more point as to the usefulness of that reserve. It will be within your knowledge that in the period of the world's depression in 1908 that had it not been for that very reserve we could never have maintained our external parity; you admit that?—Yes.

6207. Thank you?—Although, of course, something has gone in to which I ought to take exception—by saying that I am in favour of increasing the gold

standard reserve by investments. If a reserve is invested there is no reserve at all.

6208. (*Sir Reginald Mant.*) I understand your chief desideratum is stability of internal prices?—Quite.

6209. And you hold that that stability will best be secured by a gold standard with a gold currency?—Yes.

6210. Internal prices will then be linked to gold prices, will they not? They will vary with the gold prices?—Yes.

6211. Now a gold exchange standard without a gold currency has been recommended by several people with the same object in view; but I understand you to hold that it will not achieve that object?—I think it has not, so far as India is concerned.

6212. I was not speaking of what has been done in the past; it has been represented to us that if a gold exchange standard were made automatic it could secure those objects?—I do not know; there may be some people who hold that view, but I cannot see how it could be held.

6213. I want you to explain why a gold currency would achieve it and the gold exchange standard would not?—My first ground is this: that the exchange standard depreciates gold and makes it therefore useless as a standard of value. A gold exchange standard causes a redundancy of gold by its economy.

6214. Ought you not to put it the other way, and say that if we introduce a gold currency here we shall appreciate gold; would not that be a more correct way of putting it?—You might put it that way, yes. Therefore under the present circumstances gold would behave as a better standard of value. My next submission is this, are we really effecting economy by the exchange standard?

6215. I was not raising the question of economy. I was trying to get at the reason for your holding that nothing but a gold currency would effect your object of keeping internal prices linked with gold?—Stabler than they would be otherwise is what I said. If we adopted a gold standard our prices would be more stable than they would be under an exchange standard. I did not say that under a gold standard they would be perfectly stable because gold itself is not a perfectly stable standard of value; but certainly it would be more stable than under an exchange standard.

6216. Because simply we should be using more gold?—Yes.

6217. That is your only reason for differentiation?—Yes.

6218. (*Sir Maneckji Dadabhoy.*) Let me proceed a step further with regard to the answers you gave to Sir Purshotamdas Thakurdas: in paragraph 8 you say "Existing contracts are no doubt of various ages; but the great bulk of them are of very recent date and probably not more than one year old; so that it may be said that the centre of gravity of the total contractual obligations is always near the present." When you are referring to this matter, I understand you are speaking without any definite statistics?—Yes; I simply say there has been a calculation made by Professor Fisher.

6219. You state this as a sort of generalisation?—Yes. I said I had no definite information.

6220. When you speak of a centre of gravity of the total contractual obligations being near the present, it is not a very definite term. Would not that centre of gravity come within the circumference of twelve months?—Yes, somewhere about that; because I have said one year old.

6221. So that, if a certain ratio prevailed twelve months ago, we would be, according to your reasoning, as much justified in taking that as 1s. 6d.?—Quite; yes.

6222. So you would be as much justified in taking that?—Yes.

6223. Then when discussing this matter and when you expressed your election in favour of the 1s. 6d. ratio, I understand you founded your opinion on the dictum of Professor Fisher?—Yes.

6224. Now we have got this dictum of Professor Fisher before us; the words used are:—"The problem of a just standard of money looks forward rather than backward; it must take its starting point from the business now current, and not from imaginary pars before the war."?—Exactly.

6225. Don't you think that Professor Fisher when he laid down that dictum had European conditions before him only?—Yes, but that would apply almost to any country. It is a general proposition.

6226. My question is did he not have European conditions in view only when he said that?—I cannot say.

6227. (*Chairman.*) The witness replied that he thought it would apply to any conditions?—Yes, it is a general proposition.

6228. (*Sir Maneckji Dadabhoy.*) Is that conclusion justified by these expressed words?—I should think it is.

6228A. You think it is?—He says further, he does not only refer to the war,—he says: "One might as well talk of restoring the original silver pound or returning the monetary standards of Greece and Rome."

6229. Now, you know very well that this ratio of 1s. 6d. has continued in India for the last 16 months only. Now, if we take this period 16 months in Indian conditions, what would you say when you think of any imaginary pars before the war? Do you think in India a period of 16 months would make any substantial difference in coming to a conclusion? He is referring to the imaginary pars before the war; he takes a longer period?—No, no. He is simply referring back to 1914, to the parity which existed in 1914. I say, if according to information 1s. 6d. has been in existence for 16 months, then I say it ought to be confirmed.

6230. Yes. But if previous to that, with a brief interval of some years, it has ranged equally for 20 years at 1s. 4d. you would brush aside all those considerations?—Yes, because there are no contracts now existing that were made 20 years ago. And therefore we need not be concerned about it.

6231. That is your argument? And you would also brush aside its economic effect both on agriculture and on the industries of the country?—I say they will be very good. By bringing the ratio to 1s. 6d. I say there might be some depression of profits, but there won't be depression of industry.

6232. Yes. So you don't attach great value to those factors. You think on the whole it will be for the good of the country?—Yes.

6233. I will put you another question, a little bit imaginary. We will take 6 months to write out our report. Within the next 6 months if the ratio becomes 1s. 8d. I suppose you would be justified in taking that according to you as the basis of your calculation?—Then I would again say, you should strike an average.

6234. Between 1s. 8d. and 1s. 6d. or 1s. 4d.?—Between 1s. 8d. and 1s. 6d.

6235. And you think that would be a sound financial policy?—Well I don't know. You have to strike some sort of average. You can't do justice to each individual contract. For instance, if you take the example of the American War of Independence and the monetary fluctuations that took place then, all that the Americans could do was of course to do this kind of thing,—to strike an average and to dissolve all contracts on that basis. They could not do justice to each individual contract. It is impossible.

6236. (*Sir Henry Strakosch.*) Dr. Ambedkar, I want to refer back to some statements which you made in regard to the undesirability of introducing a gold exchange standard. At one period of your evidence you stated that the convertibility into exchange would not limit the issue of the currency and would therefore not produce stability of internal prices. That was one of the objections you raised and then at another point you said that the gold exchange standard is not a desirable standard because prices would be less stable under it than under a full-fledged gold standard?—Yes.

6237. Now, you are a student of economic affairs and you have no doubt followed the proceedings of the Genoa Conference?—Well, I did when I was in London. Recently of course I have not. But I know that the gold exchange standard was proposed.

6238. Well, you will remember that the Genoa Conference an International Conference adopted unanimously a proposal enjoining the countries to adopt the gold exchange standard with a view to stabilising the purchasing power of gold and that they recommended for that purpose the co-operation of central banks?—I don't suppose they did it with a view to stabilising the purchasing power of gold; they did it to stabilise their own currency.

6239. They stated definitely it was to stabilise the purchasing power of gold. Anyway, you can take it from me that it is so. Now, that is an international body and they have come to that conclusion and they apparently do not share your view that the gold exchange standard does not produce, as great a measure of stability internally as the gold standard?—Oh no. My submission is that we are comparing the gold exchange standard to a purely inconvertible standard. The belligerent countries had during the war an absolutely inconvertible currency and certainly an inconvertible currency is much worse than an exchange standard because it has some convertibility. As I have stated myself in sub-paragraph (2) to paragraph 2. They were not comparing the gold standard to the gold exchange standard; they were comparing the gold exchange standard with the paper currency they had.

6240. But I submit they did not compare at all. They made a recommendation?—But in reference to the circumstances that existed then—I should limit it that way.

6241. Well, anyway, that is a fact. Now, quite apart from that, I am not quite sure what makes you think, apart from a change in the purchasing power of gold itself, why the gold exchange standard should not be as stable as the gold standard. I don't quite follow that, and, before you answer, I should like just to define what I understand by a gold exchange standard. A gold exchange standard is a standard where there is circulating within the country a currency which is not convertible internally, but which is freely convertible externally, and you could make that currency convertible into gold for export purposes. Now, taking that standard, I should be very glad if you would tell us why such a standard is less able to maintain stability than a gold standard?—I follow your question, Sir. And my reply is this. Convertibility is a means of limiting the volume of currency to the needs of a country. A convertibility which is intended only for external purposes is not of sufficient efficacy to limit the volume of that currency. Consequently you cannot have stable internal prices to such a currency.

6242. Why do you say that it is less efficacious than convertibility for internal purposes?—Because convertibility to be effective must be absolute.

6243. But it is absolute?—It is not.

6244. But obviously it is. It is absolute. The difference is only that in the one case you convert into international money for international purposes, and in the other case you convert for either international money which is used internationally or international money which circulates within the country?—No, no. The point is this. When your obligations to convertibility are imperfect as in the case of the exchange standard you are likely to issue more currency without fear.

6245. But you just said that the obligation to convert limits the issue in both cases?—Yes, but converting depends upon the efficacy of the means of convertibility. If your convertibility is absolute, that is to say, if an issuer is bound to convert whenever he is presented with his currency, then that convertibility is absolute.

6246. But my proposition was that the gold exchange standard binds the issuing authority to convert the internal token currency into gold for external purposes?—And not for all purposes.

6247. Now, I want to know why the obligation to convert the token currency for internal purposes should increase the stability of the purchasing power of that money?—Because the principle is that any commodity, and currency included, maintains itself by the fact that it is limited in volume, in supply. That is the first elementary proposition of political economy; that any commodity maintains itself by reason of the fact that the supply is limited. If the commodity supplied is not limited, it is bound to depreciate.

6248. Do you then contemplate that in your gold standard with gold currency, there should be nothing but gold coin circulating?—No, I say that the rupee shall circulate.

6249. And no bank notes?—Yes, there will be bank notes: why not?

6250. Then, I don't see how you are limiting more effectively the internal issue in the one case than in the other?—Because I am saying that the mint shall be closed.

6251. What about the issue of banks notes?—They are covered. A covered note issued is not an addition to currency. Supposing you deposit a certain amount of gold in the bank and you issue so much currency to cover it, that currency is not an addition to the currency.

6252. Oh, you want to have notes covered by 100 per cent. gold?—Well, I don't say 100 per cent gold.

6253. Then how will you limit it?—I mean convertibility is a method of limitation. I will have paper currency which is fully, absolutely convertible and not merely for the purposes of external trade. And I will have the rupee absolutely fixed in limit. So that it will maintain its value by reason of the fact that it is limited. The paper currency will maintain its value by reason of the fact that it is convertible.

6254. And how will you manage the seasonal requirements of currency?—Well, I say you can expand the fiduciary portion of the currency so as to allow for currency being issued against paper during seasonal demand.

6255. Do you not put it here at the discretion and will of the issuer?—Yes, but there is this convertibility which regulates the discretion. Convertibility is a means by which the will of the issuer is regulated. There will be no danger. Although I admit that even under the gold standard, the gold may absolutely pass out and the country may only be inundated with paper notes.

6256. Would you say that the obligation to convert into an international currency at two given gold points is sufficient to ensure the stability of money, because, if you over-issue internally, your money will depreciate in relation to gold?—Yes, I admit it, but it will be long after. There will be a long interval before that thing may happen and in the case of some countries, it may not happen.

6257. How was the gold standard worked before the war in Europe and other countries?—It worked on the basis of convertibility, not only convertibility for external purposes.

6258. But was that standard not in the main worked, by the central banks not converting into gold but holding foreign exchange, and only in the last resort was gold flowing from one centre to another?—But their arrangements as to convertibility were perfect and absolute.

6259. You also know that a great many of the countries on the Continent of Europe who had perfectly stable currencies had practically no gold in circulation?—Yes, that was so.

6260. (*Chairman.*) We are much obliged to you, Doctor, for your very full assistance to-day.

(*The witness withdrew.*)

SEVENTEENTH DAY.

Wednesday, December 16th, 1925.

The Right Hon. EDWARD HILTON YOUNG, P.C., D.S.O., D.S.C., M.P. (*Chairman*).

Sir Rajendranath Mookerjee, K.C.I.E., K.C.V.O.
Sir Norcot Hastings Yeeles Warren, K.C.I.E.
Sir Reginald Mant, K.C.I.E., C.S.I.
Sir Maneckji Byramji Dadhabhoy. K.C.I.E.
Sir Henry Strakosch, K.B.E.
Sir Alexander Robertson Murray, C.B.E.
Sir Purshotamdas Thakurdas, C.I.E., M.B.E., M.L.A.
Professor Jahangir Cooverjee Coyajee.
Mr. William Edward Preston.

Mr. G. H. Baxter (*Joint Secretary*).

Mr. Shivpratap Joshi, Mr. Ramchandra Baid, and Mr. Umashanker Dikshit, representing the Marwari Chamber of Commerce, called and examined.

6261. (*Chairman.*) Mr. Shivpratap Joshi, you have come here to-day as the Houorary Secretary of the Marwari Chamber of Commerce in Bombay?—Yes.

6262. And you have with you Mr. Ramchandra Baid, member of your Chamber, and Mr. Umashanker Dikshit, who is the Assistant Secretary of the Chamber?—Yes.

6263. Your Association has been kind enough to provide us with a very full memorandum,* in which it sets out its views upou the currency problem. In the first place, for the benefit of those of us who are not well acquainted with the subject, could you tell us, Mr. Joshi, what is the nature of the business interests which are represented by your Association?—The nature of business is this: They are commission agents, shroffs and bullion dealers. They send goods to up country, and they are also bankers.

6264. As regards the nature of the business of a shroff, could you just give us a brief description?—They do business; they lend money. Not only they lend money, but they accept hundis or honour hundis of their up-country clients.

6265. Who are the clients of the shroffs?—The up-country dealers.

6266. Dealers in?—Iu every kind of commodities; gold bullion or imports or exports.

6267. What is the number of members of your Association?—The number is 281.

6268. I will, if I may, ask you a few questions on your memorandum just to assist us to understand your views. I am going to deal in the first place with the question of the ratio of the rupee. I find set out in paragraph 6 of your memorandum an analysis of the bad effects of raising the ratio; in paragraph 7 there is an analysis of the bad effects of reducing the ratio; and in paragraph 8 you say your committee consider both alternatives as highly objectionable and inadvisable. You come to the conclusion, "Therefore any attempt to adopt a higher or lower ratio is highly undesirable." Your memorandum presents me with a real difficulty. Supposing I am convinced as it were by your arguments that it is a bad thing to raise or lower the ratio, and supposing I accept your conclusion, "Therefore any attempt to adopt a higher or lower ratio is highly undesirable," then I am so puzzled when I come on to paragraph 10 and find that your committee suggests that the ratio of 1s. 4d. should be reverted to, because it does not seem at first sight consistent with your recommendation in paragraph 8 that any attempt to adopt a higher or lower ratio is highly undesirable. You see my difficulty, I am sure?—But I think it is no difficulty; because after the war the level of exchange has been lowering, and it was coming to the normal stage, and it was due to starving our country of currency that the exchange rate was raised.

6269. But the effects which you describe in paragraphs 6 and 7 are the effects, mostly bad according to your arguments, of raising or lowering the rate, and that means, as I understand it, raising or lowering it from whatever given rate you start with; and you come to the conclusion that raising or lowering is therefore bad. But your recommendation of 1s. 4d. does involve a lowering, does it not, because we are not now at 1s. 4d., and I want to see why it is you recommend the adoption of 1s. 4d.?—Our recommendation is above or below the gold ratio. We have accepted 1s. 4d. as gold par, and so the objectionable ratio is either below 1s. 4d. or above 1s. 4d. That is my meaning.

6270. Is what you say in paragraph 7 as to the evil effects of lowering a ratio not directed towards moving from the prevailing rate, whatever it may be, to some lower rate, or does that argument apply, as you now tell me, to moving to a lower rate from some other formal rate which is not that which exists at the time when you begin the movement?—My meaning is "lower than 1s. 4d. or higher than 1s. 4d.," and if that is accepted I don't think there will be any difficulty.

6271. Perhaps you could elucidate paragraph 6 for us by telling us what precisely is the meaning of your phrase, "our gold par before 1920 was 1s. 4d." The phrase does not seem to be very clear at first sight. I want to know just what you mean by that phrase?—That is our old price of gold, 7·53 grains.

6272. That was established by provisions as to the purchase and sale of sterling under the gold exchange standard?—That was the figure chosen as being maintainable in any way.

6273. You select that as your chosen rate because it was then the legal rate?—Yes, Sir.

6274. Just in the same sense as 1s. 4d. was our legal rate before 1920, so our legal rate is now 2 shillings?—That 2 shilling rate was not maintainable.

6275. But when it was 1s. 4d., how did they differ?—We think 1s. 4d. could be maintained if steps could be taken in favour of it, that is, by giving our country free gold.

6276. That is introducing an hypothesis as to what might have happened, and I want to consider only what has happened. I suggest to you that if you are going to select the rate on the ground of what rate is legal, you must now take as your gold par the 2 shilling rate?—We do not accept the 2 shilling; that broke down in a time of adverse balance of trade.

6277. But so has the 1s. 4d. rate?—I do not think that will break down.

6278. Does not the matter stand thus? There are two things to take into consideration, either the legal rate or the actual market rate which prevails now. The market rate which prevails at the present time is

* Appendix No. 30.

round about 1s. 6d., and the actual legal rate is 2 shillings; so I still do not see for what reason you adopt a rate which was once the legal rate, that is 1s. 4d., in preference to another?—The thing is our experience has shown this is the only rate which can be maintained in any circumstances.

6279. I will come to that presently. Finally on this question, is it not a fact that your arguments in paragraph 7 as to the evil consequences which result from a falling rate apply in common sense to the process of falling from the existing market rate of the day to some lower rate, and that therefore one criticism of your recommendation of 1s. 4d. is that it will involve all these evils you describe in paragraph 7 by moving to 1s. 4d. from the current market rate of 1s. 6d.?—But we say that all these are temporary effects; the evil effects will be only temporary.

6280. Even if the evil effects will be temporary, why incur any temporary evil effects unless you must?—Suppose you are not going to revert to the pre-war ratio we shall not be able to keep any new ratio: that is our contention.

6281. I do not follow that. Perhaps I have not quite appreciated your real reason for preferring the 1s. 4d. rate yet; but let me pass to the very interesting question which you now suggest. I understand it is your opinion that the 1s. 4d. rate can be more easily maintained, once it is enacted, than the 1s. 6d. rate?—Yes, Sir.

6282. I think the point of view you have to adopt in order to establish that proposition is this, that the maintenance of a rate depends only at bottom upon the volume of the currency of the country in relation to the business done by the country; and that any rate can be maintained with the same ease once you have contracted or expanded the currency of the country to an appropriate degree to maintain that rate. It is, therefore, not sound to say that one rate is more easily maintainable than another. I can summarise the contention in this way. The way in which the matter would have to be put is this, that such and such a rate is unattainable because it demands a contraction or expansion of the currency which is impracticable and might be ruinous, but that once the adjustments involved in adopting one rate or another have taken place then any rate is equally maintainable?—We can mainain any rate with our gold reserves but our idea is that for the 1s. 6d. figure we cannot accumulate enough reserve, and without having enough reserve it is not maintainable.

6283. The function of a reserve is this, is it not, to maintain stability against whatever fluctuations in the supply and demand for internal and international currency may follow from alterations in the balance of trade?—Yes in the balance of trade but afterwards gold is required.

6284. Are those fluctuations affected in their absolute size by the rate which you are trying to maintain?—After all the accounts are adjusted by the import of gold or the export of gold.

6285. Not necessarily by that. That perhaps would not be relevant to the contention.—(*Mr. Baid.*) May I also say a word?

6286. It would probably be an advantage to your colleague if you make any additions now before we go so far that we forget what the point was.—(*Mr. Baid.*) The Chamber is definitely of opinion that the ratio should be 1s. 4d. and not 1s. 6d. in the interests of the country as a whole. Of course this ratio of 1s. 4d. has worked very well from 1898 to 1920, except 1907-08; so for many years this ratio has worked very well; therefore we need not go to another ratio for our exchange purposes.

6287. That brings us back to the point on which I was trying to get my mind clear in regard to Mr. Joshi's remarks. You say we need not go to another ratio, but the point I am drawing your attention to is that we are now at another ratio?—True we are now at 1s. 6d. but at 1s. 6d. the country as a whole is a great loser. India is agricultural and its agricultural products suffer so much by two pence when we keep the rate at 1s. 6d.; and again our industries also suffer greatly to the amount of two pence; and so we do not want our agriculture and our industries to suffer so much by keeping the rate at 1s. 6d., we being an exporting country mostly, we wish by keeping the ratio at 1s. 4d. to gain so much national wealth.

6288. There again you involve me in just the same difficulty as regards your memorandum as that to which I was referring in my questions to Mr. Joshi? —What I understand from you is this that there shall be hardship to some.

6289. Let me just finish my question, otherwise we may lose the thread. What I was going to say was this. You say the country is suffering hardship from the 1s. 6d. ratio as the result of the rise. Do you agree with the opinion expressed in the memorandum that the hardships involved in a rising ratio are temporary?—No, Sir.

6290. You do not agree with that opinion expressed in the memorandum? The opinion is expressed here in paragraphs 6, 7 and 8 of your memorandum that the hardships involved in a rising or falling exchange are temporary. I think we ought to know whether we are proceeding on a common basis. You do agree with that?—Oh yes.

6291. Then I am going to continue now, if I am not interrupting you. If that be so, are you, or are you not, of opinion that prices have adjusted themselves to the 1s. 6d. ratio, and that those adjustments which follow from the rise in exchange have now been completed?—There are so many factors in prices. Outwardly speaking the effect of a rising or a falling exchange seems temporary; but when once we have established the ratio, we had 1s. 4d. before and now we have 1s. 6d.; now we have got this ratio of 1s. 6d. and at this 1s. 6d. ratio our country is placed in a very suffering position and that bad effect of course underlies all the transactions.

6292. I follow that general opinion, and it is the basis of that opinion which I am attempting to explore. Just to resume the thread of the questions which I was asking, the next is this. Is it your opinion, or is it not, by referring to such statistical information as is available, that Indian prices have adjusted themselves to the current rate of 1s. 6d.?—(*Mr. Joshi.*) If that ratio is legalised even in that case they have not been adjusted as yet.

6293. This is not a question of any formality or legality. This is really a practical question as to whether those effects to which you refer here as following from a rising exchange have yet in substnace had their full result on Indian prices?—(*Mr. Joshi.*) Yes they have. (*Mr. Baid.*) The result has been that our industries have suffered. See the condition of cotton. It is in an extremely bad condition and that is one of the results of the exchange going up from 1s. 4d. to 1s. 6d.

6294. I have some little difficulty in following your answers unless one of you gentlemen answers at a time; because otherwise I discern a slight danger of answers creating a little confusion in my mind as to what the effect of your reply is, as Mr. Baid does not always appear absolutely in agreement with Mr. Joshi. (*Mr. Baid.*) I thought you were addressing me, Sir.

6295. Mr. Joshi, your opinion is at any rate that prices have adjusted themselves to the new level?—Yes.

6296. If prices have adjusted themselves to the new level, if we adopt a lower level that would involve the disturbances to which you refer in paragraph 7?—But they have adjusted; after adjustment also we are losers at this ratio; the country as a whole is losing.

6297. If the adjustments have taken place and the country is still losing, that I fear is in contradiction of the opinion expressed in your memorandum that the effects of such falling or rising rates are temporary effects only?—Rising or falling are temporary; but when they have risen or fallen that effect remains.

6298. At the end of paragraph 5 you say the effects of a rising or falling rupee are comparatively speaking, temporary. Now you have told me that prices are adjusted to the present level of 1s. 6d. but the country is still suffering from the consequences of that rise. That appears to me to be irreconcilable with your expression of opinion that the effects are, comparatively speaking, temporary. But let that pass. Let me ask you, Mr. Joshi, what in your opinion are the evils from which the country is now suffering as a consequence of the rise to 1s. 6d.?—The producer can get less for his produce, and the national industries are suffering.

6299. Prices have fallen as a consequence of the rise in the rupee, and the producer can get less for his produce?—Yes.

6300. You must remember that we are proceeding on the basis that the adjustments are complete, and if he can get less for his produce he has also to pay less for what he buys. Does that not effect some compensation?—No; it is not so; he buys less than he sells.

6301. It would follow from that answer that only the prices of what he sells have fallen and not the prices of what he buys. Is it your opinion that he is still paying the same price for what he has to buy? —He gets less for his produce.

6302. But the value of the money which he gets for what he produces is greater in consequence of the general fall of prices, is it not?—No; he is getting less, not more.

6303. Let me ask you one or two questions about the next aspect, that is, the aspect of the gold exchange standard and the currency standard. I should like to ask you one or two practical questions about that. I imagine that in your sphere of business you have a very intimate acquaintance with the silver market?—Yes; we are doing commission agents' business.

6304. In silver bullion?—We are executing orders of up-country agents.

6305. That is the market you have to follow?—Yes.

6306. I wonder if you can give any assistance to the Commission in understanding some of the social and political effects of the proposals that have been put before us. In the first place, somewhere in the memorandum I think you refer to the possibility of an import duty on silver?—No.

6307. Nevertheless that is a proposal which in various ways has been put before the Committee. What in your opinion would be the effect of the re-institution of an import duty on silver imported into the country?—When the country gets a gold standard, I think there is no harm in putting a duty on silver.

6308. I am thinking really of what people would think about it. It would have the result, of course, that people in India will have to pay more for their silver than the rest of the world, if silver was dearer here than elsewhere?—But India will not buy silver at the higher price; they would buy less silver. India always buys the cheap metals; the cheaper the metal the more they buy; so India will buy less silver and consequently by instituting this duty on silver, prices in other countries will fall.

6309. Do you think it would have a real effect upon the world price of silver?—I think it would not have any effect.

6310. It would depend upon the scale of duty, would it not? What I am thinking of is this. Supposing that people see that silver is dearer in India than elsewhere, will that have any effect in making them stop buying silver and making them turn to other commodities?—Yes, they would buy gold; they would buy what was cheaper.

6311. If silver looks higher, then they would buy gold?—Yes.

6312. I want to contemplate another possibility. Supposing that currency changes make it necessary for the Government of India, when introducing a gold currency, to get rid in course of time of a large quantity of silver, shall we say about 200 crores, and supposing that can be spread over about 10 years, so that about 20 crores would have to be marketed every year, does your acquaintance with the conditions of the silver market as a whole enable you to express any opinion as to what effect those sales would have upon the price obtainable for the silver?—The first thing I want to say is that there is no need for selling silver.

6313. You start by saying there is no need to sell silver. That is an interesting opinion; but how would you avoid that? I must just explain it a little more to you. The Government introduces a gold currency; it limits the legal tender of the rupee; then its stocks of silver in its reserves are no longer of any use; they are not wanted. It is a big value, and the realisation of that value will give the Government something to set against the expenses of the scheme. Can you suggest any way in which the Government can realise that value without selling its silver?—Yes; I do not see that there will be any cost if you come to a gold standard.

6314. What is to become of India's silver if it is demonetised?—It will circulate as it is.

6315. What about the 90 crores of reserves of the Government of India?—India is a very large country. This 90 crores is not such a very big stock for India; there are 32 crores of people.

6316. The amount of rupees actually issued is somewhere in the neighbourhood of 600 crores; so that 400 crores may be left. Remembering that your proposal is to reduce the silver rupee to the position of small change, to that of the shilling in England, one result of that would be, would it not, that anybody who holds silver in hoards will want to get rid of that silver as his store of value if it ceases to be legal tender?—No; that is why therefore we say that you must not have this limited legal tender in the beginning; it must be unlimited legal tender for the present.

6317. But ultimately?—Even ultimately the legal tender should be large and if it is large ultimately the people whose earnings are not so big can have rupees also; those rupees will not return.

6318. Supposing I have a lakh or two lakhs of rupees in my chests as a hoard, as a store of value, and supposing I am told that the Government of India is going to make the rupee no longer legal tender, even for so big a sum as a thousand rupees, do you not think that I should be very anxious to change those rupees into something else?—We do not think that rupees in such large amounts are accumulated by big persons. Only the small people accumulate rupees to a certain amount; their earnings are not much and so they need not go and change it into gold.

6319. Have you been able to estimate the amount of rupees in hoards?—I think it might be about 200 crores.

6320. There are 200 crores in hoards and there are another 90 crores in the reserve?—Not even 200; I think it is less.

6321. In view of that great amount in hoards, do you think there is any practical possibility of the Government's reserve of 90 crores being worked off as small change under your system for one hundred or two hundred years to come?—We think that all those rupees will not return; India is not a country like America; India is not so rich.

6322. It is your scheme finally to make the rupee no longer unlimited legal tender, but you do not propose to give any option to people to convert their rupees into gold before you limit its legal tender?—Yes.

6323. Do you think that would be fair to the holders of the rupees?—Why not?

6324. They will say: "We have been encouraged to put our savings into rupees on the basis that they are full legal tender, and now, without giving us any chance of getting rid of them, you go and destroy part of the value of our holdings."?—It is not

destroyed. When the rupee is circulating and the limited legal tender is for a large amount, in that case they have no complaint of this kind.

6325. You are of opinion that you could take this step without at all affecting the value of the rupee?—Yes, we can take it, certainly.

6326. Finally, I understand as regards your proposals that you are in favour of the Imperial Bank managing the remittance operations?—Yes, Sir.

6327. You desire to see the control and management of the note issue and the currency policy in the Imperial Bank, but before doing that the directorate of the bank should be made fully representative of Indian interests. Will you explain those requirements as to the directorate of the bank, to show us more exactly what your Association would consider an esential condition?—The Indian interests will be represented more in the official department.

6328. You have not elaborated yet any scheme for a fresh constitution for the bank?—No.

6329. Then, finally, you pronounce against the small note; you say public sentiment is decidedly against its re-issue. That, I may say, is not in accordance with a good deal of evidence we have had here as regards the acceptability of the small paper note, so perhaps you could give us the benefit of your experience on that point?—You see, these notes are spoiled and our country is agricultural. They keep this paper with them, they have to work in water and that is spoiled easily and thousands of rupees are wasted in that way.

6330. You have heard complaints, have you, from small people that they have lost money by destruction?—We see it by experience.

6331. (*Chairman.*) Now perhaps you will be kind enough to answer any supplementary questions that my colleagues may have to ask you. I should perhaps remind the Commission that we have the advantage of the presence of the representatives of the Marwari Chamber of Commerce only until 12.30, and that after that another witness is coming.

6332. (*Sir Norcot Warren.*) Clause 24. Am I to understand from the opinion expressed in this clause that the Imperial Bank of India has the confidence of the people of India to a greater extent than the Government of India? Is that what you mean?—My meaning is that Government has to think more of politics, and this is a currency matter and so this should remain with other parties who have nothing of politics in their minds. It is in this respect that I want to say that this should be transferred to the Imperial Bank. I have no other meaning than this.

6333. (*Sir Purshotamdas Thakurdas.*) Will you refer to paragraph II of the printed memorandum, Mr. Joshi? You say: "The Committee feel sure that if the gold price of the rupee is fixed as suggested and gold is made freely convertible into notes or sovereigns, an immense amount of gold which the country has taken in at 1s. 6d. will be released and will become available for trade purposes." What do you mean by "an immense amount of gold which the country has taken in at 1s. 6d. will be released"?—Now, you see during the last year the country has taken an enormous amount of gold in adjustment of the favourable trade balance of the country. Now, India buys gold at cheaper rates. They only buy gold or silver when they have the level cheaper, and so, they have bought at 1s. 6d., and at 1s. 4d. they will give it back.

6334. What difference will 1s. 6d. and 1s. 4d. make in the rupee rates of gold, Mr. Joshi?—In the rupee rates there will be three rupees difference.

6335. At 1s. 6d. the gold rate is what?—The gold rate is Rs. 21-4, and at 1s. 4d. it will be say Rs. 24.

6336. What you mean is that the people will be making a profit on what they have bought and that they will part with the gold?—Yes.

6337. You mean they will sell it in the market or offer it to the mint to be coined?—They will offer it to the mint.

6338. So, all this gold which at present is in hoard will be converted into coin and will be available for circulation?—Yes, certainly.

6339. Are you saying this from any previous experience of your Chamber regarding fluctuations in gold rates?—Yes, Sir, we have seen.

6340. Will you give us one, if you remember any case like this?—Yes, Sir. Some years back, when the Government gave gold in tender, the price was about Rs. 20 average. Now India bought that gold at Rs. 21 and Rs. 20, and when the trade balance was against India, the price of gold rose to Rs. 33. During that period India was letting gold out. This is a recent experience which I have given.

6341. You mean the people who put in the gold at Rs. 20 sold it back as they made a profit at Rs. 33. Is that what you mean?—Certainly. They sold and got some profit.

6342. You said just now that people buy whichever of the two precious metals is cheaper. What do you think is a cheap price for silver in the eyes of the people with whom you are acquainted, I mean the class about whom you spoke?—It would be regarded as a cheap level of price for silver only up to Rs. 60.

6343. At Rs. 60 you would consider it cheap?—Yes.

6344. And you think that the 72 or 71 rupee rate prevailing at present is on the high side?—not attractive to the buyer?—No, it is not attractive to the buyer.

6345. Gold, you think, at about Rs. 21 is regarded by the people as cheap?—Yes.

6346. Now, if silver happens to go under Rs. 60, you think people will put in silver?—Certainly.

6347. They won't part with it at any rate?—Certainly.

6348. That is the experience of your Association?—Certainly.

6349. Can you give us any instance, if you remember anything, as to when silver was under 60 or at 60?—Some years back.

6350. Can you tell us how many years back?—I don't remember exactly. It was Rs. 56 and India bought an immense amount of silver at that rate.

6351. So you think that if silver goes under Rs. 60 against the Rs. 71 which is the rate to-day, the people will not only not part with silver in their possession but may buy more?—Yes, Sir.

6352. Why do the people buy silver? Supposing silver coin is made a limited legal tender, as you yourself suggest, why would people buy silver at Rs. 56 or Rs. 60?—The price of silver is less than that of the rupee. They buy silver at the market rate, that is the current rate. They buy it at the current rate.

6353. Why do people buy silver? Do they use it for domestic purposes and ornaments?—They use it for ornaments.

6354. And at under Rs. 60 the people feel that it is a very good investment and the lower it goes below the Rs. 60 level, the more people will buy. At any rate they are not likely to sell?—Yes.

6355. Why do you then say that the Government of India, when they make their rupee coin a limited legal tender, should not sell their silver in the market here. Let me explain it. When the Government of India make the silver coin a limited legal tender and as the silver coin which the Government of India would be limiting would be in the neighbourhood of say two hundred crores returning from currency, why should they keep that silver and lose interest on it and why don't you recommend them to sell the silver in the market in India?—The thing is that India is a poor country, she requires subsidiary coins also. So in the shape of subsidiary coin we may keep that silver.

6356. Do you, Mr. Joshi, wish to say that you require rupees as subsidiary coin to the extent of 200 crores? You could not require that, could you? I mean when gold is in circulation and gold notes will be exchanged, as you say in paragraph 11, surely the people would not want so many hundred crores of rupees as subsidiary coin? The Government of India

would have the silver lying in their treasury useless. Why should they not sell it?—Our belief is that so many rupees will not be returned to our currency department.

6357. Now, I will shift to that. How many rupees do you think are likely to be returned when the gold coin is put into circulation?—Not so much.

6358. How much? "So much" gives us no idea. A hundred crores, two hundred crores, fifty crores?—A negligible amount.

6359. Ten crores?—Yes, it may be 10 crores.

6360. I mean, when the people can get gold coin in return for a certain amount of rupees, in accordance with the rate of exchange fixed, you don't think the people will rush for gold coin?—You see, we are not going to convert it into gold at the very beginning.

6361. But eventually when you do convert, the Government of India are bound to have a large quantity of silver rupees in their treasury which you want the Government to place in the reserve. You want the amount to buy gold with. Well to pay for that gold from England or America, they will have to put up money. Now, if they are to lock up their silver rupees here without selling it, surely it will mean less interest to the treasury and to the tax-payer?—We see that we are not going to have it all at once but as the stages come on this silver will be absorbed in the country.

6362. By?—Will be absorbed as it has been for the last few years.

6363. As currency?—As currency also.

6364. But the currency, Mr. Joshi, will then be a subsidiary coin within a period of five or ten years, whatever you may estimate it will take to complete the stages, your rupee will be a subsidiary coin?—Certainly.

6365. And you don't mean to say that as subsidiary coin the country will want the same amount of rupees as they wanted for the main coin?—I don't think there will be any harm if the present amount remains.

6366. (*Chairman.*) Sir Purshotamdas, this is rather the ground that the witness went over with me. Do you think you will get anything more from him by your questions?

6367. (*Sir Purshotamdas Thakurdas.*) I was only wondering whether he appreciated the difference in the shape of loss of interest to the treasury.

6368. (*Chairman.*) I was waiting to see whether Mr. Joshi had anything to add to that. It seems to me he has given us his views upon the matter.

6369. (*Sir Purshotamdas Thakurdas.*) Regarding banking facilities, the people of India especially in the mofussil—I mean the districts—are not accustomed to invest their savings?—Certainly.

6370. The representatives of your community and members of your Chamber have the reputation of being bankers in the districts?—Certainly.

6371. Why do you think that the people prefer to keep their savings in coin or in precious metals instead of offering it as deposits to banks or to industries or to firms like those of your firms?—My reply is that there are not so much facilities, banking facilities, and so they feel disgusted, and so they keep gold or silver.

6372. But while there are no banks, surely there are bankers?—Certainly.

6373. I mean every place has a Sowcar. Why don't people lend to the Sowcar and earn interest instead of keeping it in precious metals?—The system is not so good.

6374. Which system is not good?—The banking system. What I mean to say is that they keep gold or silver simply because they think that when required they will be able to get it; so if facilities may be given by the Imperial Bank, or the currency authorities, then in that case they may do away with gold and take notes.

6375. "When facilities are given by the Imperial Bank," you mean thereby that when the Imperial Bank has a branch and is prepared to borrow, then the people will be prepared to lend?—Certainly, and when there may be some facilities.

6376. What sort of facilities?—According to our Deshi system. Now everything is in English, which some people cannot read.

6377. You mean when banks are conducted with vernaculars as the languago of the district for cheques? Are there none such at present?—I do not think so.

6378. Well, you said that the people generally do not lend and they keep their money in precious metals because they are not sure that they will get precious metals?—They will do it in small amounts owing to want of facilities.

6379. If they feel sure that they would get the gold coin just as they feel sure that they would get the silver coin, you think people would be more disposed to invest?—Yes, more disposed to part with the hoarded gold.

6380. And what would they then do? Invest their money in the Banks, taking it for granted that the Banks will within that period be prepared to give facilities?—Certainly.

6381. Just one more question, Mr. Joshi. You say in paragraph 5 of your written statement: "These effects of a rising or falling rupee are comparatively speaking temporary"; and I understood you to say in reply to the Chairman that in your opinion prices had adjusted themselves since the rise of the rupee from 1s. 4d. to 1s. 6d. The prices of what commodities had you in mind?—The prices of raw materials.

6382. You think the price of bajra and so forth is affected by exchange?—Such things are not exported. "Prices of exportable articles," that is my meaning.

6383. You think that the price of wheat is affected?—If wheat is exported in large amounts, then it is affected to a certain extent, but the poorer population here are using other articles than wheat.

6384. That is, rice, pulses, etc. Did the prices of these articles go down with the rise in exchange from 1s. 4d. to 1s. 6d.—bajra and such other things, not exported?—They were not affected.

6385. Therefore a change in exchange does not affect these articles?—Certainly.

6386. And there are no corresponding sympathetic fluctuations upwards or downwards?—Certainly.

6387. Are these articles the main articles which go to make up the cost of living of the masses in India? Certainly.

6388. Does a rise or fall in exchange therefore cheapen their cost of living?—It has no effect at all.

6389. Whatever the cost of living is, it is stationary, and the gain or loss to tho cultivator in the articles which he grows for export is affected independent of that?—Yes.

6390. (*Sir Reginald Mant.*) Mr. Joshi, to pursue that last point a little further: is there any competition in this country between the different kinds of food grains? I mean, supposing wheat is cheaper, don't people then eat more wheat, and supposing wheat is dearer, don't they eat less wheat?—You see, the masses are only eating such things as bajra and all these other articles because they are accustomed to eat that, and if wheat is cheaper, then they may take that to a certain extent. They are accustomed to eat all these materials which are not exported generally. The people in this part, the massos, are only taking the materials which are not exported in large amounts.

6391. You are aware that in Upper India, in the Punjab, in the United Provinces and in Sind there is a very general consumption of wheat, especially when it is cheap. Are you not aware of that?—You see there are people who are accustomed to it; there are such people also who do not like to eat wheat, in certain parts. They say, "No, we don't like this, we like our bajra, and so on; it is our hereditary food," and so they take it.

6392. That is in this part of the country?—But the richer people, they take wheat.

6393. You are not then acquainted with the conditions in Upper India, the Punjab and the

United Provinces and Sind, where a great number of people consume wheat, not only the rich people?—I think the majority will be found to use these other materials. I do not say that none is taking wheat; there may be some who take it; but taking all into consideration we say that the number will remain below that which takes the other materials.

6394. What I want to put to you is that at any rate in large parts of India the people eat more wheat when it is cheap than they do when it is dear. Do you agree to that proposition?—You see, wheat will not take the place of the other things. They may take it, but it will not totally take the place of the other things. Wheat, if it is cheaper, will not take the place of all the other materials.

6395. Let us keep to one point at a time. You agree that they eat more wheat when it is cheap. Don't you think therefore that they eat less of the other grains? When they eat more wheat, don't they eat less of the other grains?—In that case they may take less of the other grains.

6396. And would not that tend to cheapen the other grains if there is a small demand for them?—I think it is not usually a very big amount.

6397. But there would be some effect from a decrease in consumption?—Small amounts can have no effect I think. Well, if it is in larger amounts, it may have some effect, but small amounts cannot have any lasting effect.

6398. Have you any idea of the proportion of wheat that is exported as compared with the amount that is produced in India? Would you say that 10 per cent. of the wheat produced in India is exported?—More than 10 per cent. I think.

6399. Can you give me a figure?—I have no figure at present.

6400. I think you will find that a very small proportion of the wheat is exported. You say that it is only small amounts that are consumed. I think, however, you will find that a very large amount; by far the greatest proportion of the wheat produced in the country is consumed in the country?—But that is consumed by the rich people, not by the poorer people.

6401. I think you are generalising from your experience in this part of the country, Mr. Joshi?—Well, the general belief is this, that in India the poor masses are taking other materials than wheat. That is the general belief I think, and the rich people are taking wheat. There are two kinds of people: the poor are taking other materials and the rich are taking wheat.

6402. I can inform you, if you are not aware of it, that in the parts of India which I know, especially the Punjab, the consumption of wheat is very general and is not confined to the richer classes?—It may be in certain parts.

6403. Well, taking the parts where wheat is generally consumed, we reach the point that when wheat is cheaper, the consumption increases and the consumption of other grains which are in competition with it decreases. The question I wanted to put to you, and to which I have not yet had an answer, was,—will not that decrease in the consumption of the other grains cheapen those grains, or will it not tend to cheapen those grains?—They may be cheap if greater use is made of the other thing.

6404. And therefore will not the price of wheat affect the price of those other food grains?—I do not think it is so important, because generally, even in times of big exports of wheat or less exports, we do not see so much difference I think.

6405. I do not follow you. The point is that the price of wheat affects the prices of other grains. You will admit that it has some effect?—Some effect.

6406. But your point is it has not an important effect?—Not so important.

6407. (*Sir Henry Strakosch.*) In paragraph 19 of your memorandum, you say that the gold reserve to be provided for when the full gold standard is put into operation will have to be very much bigger than the present gold reserve. You say that you cannot state now what the size of that reserve would be. What I want to ask you is how would you suggest that this gold reserve is to be provided?—This gold reserve will be provided by our favourable trade balances every year.

6408. But how would that work? The reserve would have to be held by the currency authority and how would the currency authority become possessed of that balance of payments which is imported in the form of gold?—They may buy gold by tenders.

6409. Who would buy?—Government, when they fix some ratio.

6410. And in what form will they make payment?—They will make payment in notes.

6411. So you would be increasing your note circulation in order to buy gold?—What I mean to say is that we would issue fresh currency only against gold. We are not buying further silver now.

6412. Yes; I want to know how that reserve is going to be accumulated. You say that gold would come into the country because India has a favourable balance of payments and that that gold would be purchased by the Government and that the people, the sellers of the gold, would accept notes for that?—Certainly.

6413. But if by any chance they were not prepared to accept notes but were to demand that the notes should be converted into gold and you provide for it here by saying "that the reserve would be required to provide for maintaining the convertibility into sovereigns of notes and of rupees in circulation." Well, how would that work then?—It is not in the initial stage. What I want to say is that is our idea; ultimately.

6414. But if you offer to exchange, to give gold for rupee notes and rupee coins in circulation, you must have some gold; you must have gold ready to give it in exchange for them?—No; we are not giving it in the very beginning.

6415. But I am thinking of later on?—Later on when we have enough reserve; that will come along afterwards.

6416. But I have tried to point out to you that it is conceivable that the people will not be prepared to sell the gold for notes?—When our trade balances are favourable, people take gold and the extra, what remains in the market, goes to the currency, if some ratio is fixed.

6417. No, but last year, India imported something like 70 crores of gold. That gold was imported and is now being held by the people in their own stores. Why should they not continue to do that in future?—They are holding it simply because Government is not accepting it.

6418. You think that, if Government were to accept gold, they would then be content to have notes?—Certainly.

6419. And you think that by that process you could, in course of time, accumulate sufficient reserve to be able to pay out gold in exchange for notes and rupees if the necessity arose?—Certainly. But that depends upon the ratio. If the ratio is fixed lower we will get more gold.

6420. I do not understand that. Why would you get more gold if the ratio is fixed lower?—I believe India is buying gold in amounts of rupees. Suppose at 1s. 6d. the price is Rs. 21-4; at 1s. 4d. ratio, it will be Rs. 24.

6421. You mean, in other words, that when gold has appreciated in terms of rupees, the people will want to take a profit on the gold which they bought at a cheaper price?—The country is habituated to believe that gold below 1s. 4d. is never to be maintained.

6422. Therefore, as I say, if the ratio was fixed at 1s. 4d., they would then say that the price will be maintained and therefore there is no longer any prospective profit in our holding the gold and therefore we shall sell it. That is the point?—If

the price goes above and they are sure that they will be able to get gold against it, in that case they will part with it. When there is free gold they will part with it gradually.

6423. Do you think that much gold has been bought recently simply in anticipation of the rate being reduced to 1s. 4d.?—India is in the habit of buying precious metals owing to cheaper rates.

6424. Quite. That is to say, they consider that gold is cheap because they were expecting that the price of gold would rise, which would happen when the ratio is fixed at 1s. 4d.?—Yes. They are of mind that 1s. 4d. is the ratio for ever; that is, our gold is at Rs. 24. This is the belief in the general public, and therefore they don't let gold out.

6425. Therefore, I suppose, it is fair to say that it is the desire of every one who holds gold that the ratio should be fixed at 1s. 4d. rather than at 1s. 6d.?—Not only of those, but the country as a whole wants it to be fixed at 1s. 4d.

6426. (*Sir Reginald Mant.*) Mr. Joshi, I have now obtained the figures for the production and export of wheat the point which we were just now discussing and I should like to call your attention to this: During the last three years for which we have statistics, 1921-22, 1922-23 and 1923-24, the average production of wheat was estimated at 9,850,000 tons and the average export was 313,000 tons; that is a little over three per cent. of the total production. Would you, therefore, now agree that the greater part of the wheat crop produced in India is consumed in the country and that it is not produced mainly for export?—(*Mr Baid.*) My friend is a bullion dealer and I am a wheat dealer; so may I explain it? If we take the average for about 10 or 15 years, the average is about 10 per cent. and not 3 per cent. For three years, of course, it may be less. Last year it was more than 10 per cent. It was 12 per cent. That is for 1923-24, when 12 lakhs of tons were exported.

6427. In 1923-24, the production was 9,747,000 tons and the export was 638,000 tons.—If you take the average for the last 10 or 15 years, I have not got the figures before me here and I can send you afterwards if you want, if you take the average for 15 years, then it will be not less than 10 per cent.

6428. 10 per cent. is the figure I suggested. It was what I had in my mind from my previous experience. But your friend, Mr. Joshi, said that 10 per cent. was much too small and that the export was more than 10 per cent.—10 per cent.

6429. It merely bears out the point which I wish to make that the greater part or 90 per cent. at least of the wheat crop is consumed in India.—About 90 per cent. is consumed and 10 per cent. is exported. But generally the prices of javari and bajri and other pulses are cheaper than the prices of wheat. Even supposing the prices of wheat go a little down, it is very seldom that they go below the prices of javari and bajri and therefore, the poor people generally consume those articles only. While the middle and upper classes consume wheat.

6430. Are you acquainted with conditions in the Punjab, Mr. Baid?—Yes; I know.

6431. Do you tell me that the people generally there do not consume wheat?—In the Punjab the people consume *makka*.

6432. I did not say that they consume nothing but wheat.—I do not say that they do not consume wheat. But what I say is that the farmers generally prefer *makka* to wheat, because that is a much stronger element.

6433. (*Sir Maneekji Dadabhoy.*) In paragrapj 24, Mr. Joshi, you deal with the question of the transfer of management of currency to the Imperial Bank of India. You recommend to transfer the control and management not only of the note issue but of the whole of the currency department to the Imperial Bank. Now it is not perfectly clear whether in this scheme of transfer you want the Government of India to keep some power of superintendence, control and direction?—The Government of India may have some control.

6434. And you would maintain in the Government of India power of superintendence and control?—It will be called the State Bank and it will do as Government are doing at present. All the currency department will be under this Imperial Bank.

6435. The Imperial Bank will be acting as agent of the Government of India?—Yes; it will be acting as an agent.

6436. Now you said that the Bank must be made fully representative of Indian interests. Is the Imperial Bank of India to-day not representative of Indian interests?—I do not think it is fully representative.

6437. (*Sir Maneckji Dadabhoy.*) What recommendations would you make in that direction, I mean what further recommendations?

6438. (*Chairman.*) When I asked the witness that question he said his Association had not worked out any detailed scheme for the change of constitution.

6439. (*Sir Maneckji Dadabhoy.*) You have no personal suggestions to offer?—(*Mr. Joshi.*) No, I am not an expert in this matter.

6440. Would you ask the Government to nominate the directors or would you ask the Bank to nominate the directors?—The Bank.

6441. Government should have no voice in the constitution of the directorate?—Government should nominate certain directors no doubt.

6442. Certain directors should be nominated by Government?—Yes, Sir.

6443. (*Mr. Preston.*) Mr. Joshi, in paragraph 17, you say, "Under the circumstances my committee suggest that effective steps should be taken immediately to ensure India's going over to the full and real gold standard at an early date." That is you do not anticipate that the country is in a position actually to go on to the real gold standard: although you think we should announce that as our ultimate intention, still you are prepared to give the scheme time before it actually comes into operation?—But preliminary steps should be taken.

6444. Exactly. Then in paragraph 21, you say, "My Committee, however, are of opinion that before imposing a limit on the amount for which the rupee should be legal tender it should not be declared convertible into gold for internal use"?—Certainly.

6445. "But whether the rupee remains unlimited tender as now or not for *bonâ fide* export purposes gold should certainly be issued against rupees." Then in your paper you go on to describe or to deal with certain component parts of such a system as you desire to attain. A question was put to you by Sir Henry Strakosch. That was in reference to the gold standard reserve. When Sir Henry asked you how you were going to increase this reserve you stated that the reserve will have to be considerably added to. I take it that your reply did not refer particularly to the gold standard reserve as it exists to-day, that what you were trying to emphasise was the general gold reserves of the country rather than any one particular reserve. Is that right?—We want you to take early steps; these are the early steps to be taken; but ultimately we require a gold standard.

6446. You are speaking of the general gold reserves or the total gold resrves. I take it you intend that Government will not sell more than tho fixed amount of councils which the Home Charges necessitate?—I do not understand clearly.

6447. Well, I will put it in this way. Government under your scheme are only permitted to sell the actual amount of exchange required by their home requirements, nothing more?—Certainly, Sir.

6448. Then they stop and a line is drawn; and as additional currency is required in this country for seasonal purposes every Bank desiring to obtain additional currency, every buyer of India's produce

who desires on his own personal behalf to obtain additional currency, what they will have to do is to tender actual gold in London or ship gold to this country and tender it to the Currency Office and there obtain local currency, either notes or rupees, from the Currency Office?—Certainly.

6449. And the gold reserves to that extent will be increased. I think that is what you really meant?—Yes.

6450. There are just one or two more points I want to ask you. You suggest that we should really, if we coin at all, coin sovereigns and half-sovereigns, or if the country considers that a gold mohur is more to their dignity they can call it a gold mohur, but really speaking it will be a sovereign only under another name?—Certainly.

6451. Of identical fineness and identical weight with our present gold sovereign and half-sovereign, though it may be called a gold mohur?—Certainly.

6452. There is one point in connection with that particular gold standard reserve as it exists to-day. You are, no doubt, aware that the gold standard reserve as it exists to-day, this particular one came into being 20 years ago?—Certainly.

6453. It came into being as the result of profits on the coinage of rupee; the actual profits, I believe, really represented a sterling amount equal to about 27 million sterling. The fund to-day amounts to 40 million sterling. Therefore the increase in that reserve has been brought about by accumulations of interest on that reserve. Now the interest on that reserve to-day, which amounts to nearly a million and a half sterling and which some years ago was always added to the parent reserve, is being used for revenue purposes?—Certainly.

6454. What would you say to a suggestion to this effect, that the million and a half or the annual interest as earned on that fund to-day shall in future, instead of being added in London, the gold should be taken from London and shipped to this side in order to create an additional actual gold fund here in India?—To import gold into India?

6455. Yes?—Certainly.

6456. Then as regards the paper currency, I just want to ask you a question on that. You have stated as your opinion that when we do come to a gold standard the actual gold backing of the note issue should be not less than 50 per cent.?—Yes, Sir; but it is our ideal only.

6457. You have got to arrive at some ideal, of course?—It may be less, but that is our ideal.

6458. We have got to have some figure. Now I want you to give me some idea, an approximate idea, an ideal it may be in the same sense in which you have just spoken, as to how long you are going to give us to bring such a scheme into operation. Would you consider 20 years too long to do this in? That is, to accumulate sufficient gold so that we can say, "Here you are; we have so much good in the reserve"?—It won't take so many years, less than 20 years; I should say 10 years.

6459. But you must give us some leverage; say 10 to 15 years, shall we say? You cannot say exactly how many years it will take. You might meet with one or two bad monsoons, and that would impede the whole of our progress; so really speaking you must have a time-limit to bring this into being; shall we say 15 years?—No, I think 10 years will do.

6460. You think we might do it in 10 years. Very well. However, I take it you will be perfectly content if from the time it is announced that we shall bring this scheme into being; and you recognise that there are difficulties in the way in the meantime which will hardly enable us to bring it actually in force as a working scheme at an earlier period than 10 years from now. That is your idea?—Certainly.

6461. (*Sir Alexander Murray.*) Mr. Joshi, in the statement here, paragraph 7, you say that a low exchange means higher prices to the consumer. Speaking generally, lower exchange means higher prices to the consumer?—Certainly.

6462. And, conversely, high exchange means lower prices?—Certainly.

6463. But in reply to some member you said that that did not apply to particular things and in particular you instanced foodgrains?—Certainly.

6464. And you differentiated between foodgrains that were being exported and foodgrains that were not being exported; and I think you indicated that the prices of the one might be going up without affecting the prices of the other?—Certainly.

6465. And I think you went further and said that as a matter of fact although exchange had gone up prices of certain foodgrains in the country have not gone down?—Certainly.

6466. In particular the prices of purely country foodgrains had not gone down so much as the exportable foodgrains?—Certainly.

6467. Now it is very difficult to get figures to make a comparison but I suppose you know the Labour Gazette and the figures that they make up there. While you have been giving your evidence I have been taking down some figures here on which I would like your opinion. Take four foodgrains in particular, two that are exportable and two that are usually never exported. Take rice, wheat, jowari and bajri. These are four typical grains. Well, according to the figures here, taking the price of rice—you know about index figures, you appreciate index figures, that is, you take 100 as an index and put against it any rise or fall from the 100; taking the figures for July 1914 if we put rice at 100 the index figure for rice to-day is 129, which means that rice has gone up 29 points. Taking wheat the index figure is 124 which means that wheat has gone up 24 points. Taking jowari, the index figure has gone up 28 points, and bajri has gone from 100 to 130, an increase of 30 points. So that there we find over the 11 years from July 1914 to October 1925 the rise has been relatively the same in rice and wheat and jowari and bajri, although two of them are exportable grains and two of them are not generally exportable?—Certainly.

6468. Similarly if you turn to page 130 of this publication you will find the actual prices given, per paylee. They give the actual prices of the rice, wheat, bajri and jowari and as a matter of fact they show very very little change relatively over the 11 years. So that I think as a general proposition in the face of these figures it would be fair to assume that the prices of foodgrains react on each other, that is to say, if one set of foodgrains goes up the other set sooner or later also goes up and *vice versâ*. I have here taken four sets, two exportable and two non-exportable, and they are the biggest cereals in the country; so that I think that you would accept my proposition that they rise and fall together more or less?—No.

6469. I think you say that foodgrain prices in India have not gone down in proportion to other things?—They have not come down.

6470. As a matter of fact, if you turn to page 127 of this publication they give here the statistics for food, non food and general wholesale prices—three different things; and it shows that in 1920-21 the index number for food articles was 206, while to-day it is 157, that is, a drop of 49 points. The non-food index number in 1920 was 219; to-day it is 169 or a drop of 50 points; and of all the articles put together, the wholesale articles, the number has dropped from 216 in 1920 to 165 now, or a drop of 51 points. Now it is an extraordinary coincidence that food, non-food and other articles have more or less all dropped 50 points since 1920 and exchange has been steadily rising since 1921; so that again it would be a natural conclusion to assume that with a rise in exchange, on the figures I am giving, the prices have come down?—Not in all cases.

6471. But I am giving you three sets of figures for food, non-food and all articles?—There may be some other causes relating to demand and supply which may affect the prices.

6472. Quite true; I agree that in particular cases or with particular articles there may be other causes; but I am giving you figures for these three sets of things over a period of six years; that would go to point out that with a rise in exchange you get a fall in prices. Again at page 204 the figures of retail food index numbers for India are given as against other countries. Now these are retail food index numbers alone and they are not included in the other articles; and they show that taking it since October of last year, when the exchange was 1s. 4d. (and to-day it is 1s. 6d.) the price of food articles has dropped from 156 to 148, again bearing out to a certain extent the fact that with a rising exchange there is a fall in prices?—Yes.

6473. Now, turning to paragraph 12 of your statement you say "Trade is slacker than even in the almost bankrupt States of Europe. . . . Neither imports nor Indian manufactures are finding a good market"?—Yes.

6474. But, as a matter of fact, the trade turn-over for India if you take imports and exports together, is the biggest that has ever been in the history of India; the amount is 650 crores together?—That may be so; but from practical experience we see that there is no business at all, that all are complaining that nobody is able to make any profit.

6475. You are talking as a trading community and Marwaris are all traders, and you make a statement that neither imports nor Indian manufactures are finding a good market?—Yes.

6476. While as a matter of fact the trade of India, the export and import trade, which is a fair index of the Indian trade, is bigger than it ever has been?—I do not mean the import and export trade; but the internal condition of trade in India.

6477. But the import and export trade is a fair index of what is going on in India as a whole? It is a very large proportion?—But I do not think it has given any profit to the people.

6478. What do you mean by that?—They are not earning any profits and so trading is slack. Things are not saleable.

6479. Are you thinking of any particular article? Name one article?—Cotton cloth for example.

6480. Let us take cotton cloth; you say they are buying dear and are not able to sell at a profit. Naturally if you are on a falling market and if you buy at a high price and the market has dropped, you cannot sell at a profit. If you will take the figures either of cotton manufactures or of raw cotton you will find that prices have been falling for the last year or two, so that you cannot possibly expect to buy and sell at a profit because there has been a fall in price. If you take the United States of America for instance, in 1923 the price of cotton was at 21 cents; in 1924 it was 35 cents and to-day it is 18 cents; if you take the price of cotton in Liverpool, in 1923 it was 21d. to-day it is 9d. When you take cotton it is natural that you should be buying dearer and selling lower and not making a profit; but you say that the Indian trade is very badly affected due to this difference in exchange. I have shown here that the difference in cotton is due to the fall in cotton prices largely; but over and above that how can you expect the imports of cotton to be as large to-day as they were in the pre-war days, when you find mills producing in India very much more than they ever did in pre-war days? While you have been giving evidence I have been taking out some figures and I see, for instance, that it is given there that in the five pre-war years the imports of cotton piece-goods into India averaged 2,632 million yards; and in 1923-24 they averaged only 1,485 million yards. Now that is a decrease of 44 per cent. You would argue from that as a Marwari trader and representing an Association that trade was very bad and therefore exchange or something else is to blame. Well, now taking the production of the Indian mills on the other hand, in the five pre-war years the Indian mills only produced 1,105 million yards per annum; but if you take 1923-24 they produced 1,700 million yards, an increase of 54 per cent. Now, on the face of that you will say the Indian mills must be doing very well, because they had increased their output from a pre-war average of 1,105 million yards to the present average of 1,700 million yards?—It does not mean that the trade is good.

6481. (*Chairman.*) Sir Alexander, I do not want to interrupt you, but I wonder if either of the witnesses has got any personal experience of the cotton trade.

6482. (*Sir Alexander Murray.*) They are big cotton importers, are they not? They represent a cotton importers' association and they instanced cotton cloth in reply to one of my questions; that is why I went on questioning them about cotton.

6483. (*Chairman.*) Does your association include brokers, dealers and merchants in the cotton trade?—Yes.

6484. (*Sir Alexander Murray.*) What remark have you to make on the figures I have given?—My remark is that the figure of production is not a proper indication of progress. We can see that so many cotton mills have made no profit at all. The number of mills has increased and it is therefore that the production has increased.

6485. You say the trouble is that the number of mills has increased and the production has increased in consequence?—Yes.

6486. Now, dealing with one other thing, you say if the Government select a higher ratio than 1s. 4d. it would break down in times of extremely adverse balance of trade: now how many extremely adverse balance of trade years have we had, in your experience? Can you point to any in the past thirteen years?—It broke down when it was 2s. It went down to 1s. 3d.

6487. That was the war?—After the war.

6488. Those were abnormal times and that only lasted for eighteen months or so. But taking the pre-war years how many extremely adverse balance of trade years do you know of?—1907 and 1908.

6489. There was an extremely adverse balance of trade in 1908; can you refer to any other year previous to 1914 in which there was an adverse balance of trade?—I do not remember.

6490. And can you point to any other years since 1922 when there has been an adverse balance of trade?—I cannot say.

6491. Therefore is it not a bit unreasonable to legislate for adverse balance of trade when that only occurs once in twenty years?—I don't know exactly. But we think that if the ratio is fixed above 1s. 4d., it is not maintainable in all cases. That is the opinion my committee has formed.

6492. (*Sir Alexander Murray.*) You use the expression "in times of extremely adverse balance of trade." Thank you.

6493. (*Sir Purshotamdas Thakurdas.*) Don't you think, Sir, it will be useful to have on record the particular line of business with which Mr. Joshi himself is personally acquainted and with which Mr. Baid is himself acquainted.

6494. (*Chairman.*) Mr. Joshi, your line of business is a bullion dealer, and Mr. Baid, you are principally concerned with grain and cotton?—(Both) Yes.

6495. (*Sir Purshotamdas Thakurdas.*) Then, Sir, may I ask him one question? Then the replies you have given here regarding the price of foodgrains are not based on your personal knowledge at all, Mr. Joshi?—No, not at all.

6496. (*Chairman.*) Sir Purshotamdas, these witnesses have come to represent the opinions of their chamber. We must not unduly discount their evidence in that respect, must we?

6497. (*Sir Purshotamdas Thakurdas.*) It is a question, Sir, of degree. I wanted to ask him whether he himself was in touch with the business of grain about which he gave certain replies. (*Mr. Baid.*) It was for that reason that two or three witnesses were sent, so that one could supplement the replies of the other.

6498. (*Chairman.*) The Commission is very much obliged to you, gentlemen, for your very full and ample assistance this morning and to your Association for their memorandum.

(*The witnesses withdrew.*)

Mr. CHUNILAL MEHTA called and examined.

6499. (*Chairman.*) Mr. Chunilal Mehta, you are a cotton and bullion broker and a commission agent, and have been engaged in business in the city of Bombay for a number of years?—Yes.

6500. You have been good enough to provide the Commission with a memorandum* of your views upon the currency question. I will, if I may, ask you a few questions. In the first place, as to the scheme which you propose, do you suggest that, before limiting the rupee as legal tender, an opportunity should be given to convert silver rupees into gold?—Yes.

6501. And especially those held as stores of value?—Yes.

6502. To what extent do you think advantage will be taken of that offer?—Well, it will take some time and it will take about 100 crores.

6503. 100 crores spread over some time?—Yes.

6504. Let me put a suggestion to you to ascertain what you think about it. It is this, that as soon as you make the offer you will get the whole of the 100 crores pushed out at once, because people will say: this is a good thing, do not let us be too late for it?—No, they will not do that.

6505. Why not?—People will not hurry. They have got sufficient gold at present. At least in bar gold they have invested in a very big amount, and hence they will not hurry to get the gold coin very soon.

6506. We are considering people with silver now, not people with gold. Do you think the hoarding of silver exists only to a very small extent?—The hoarding of silver is only for ornaments.

6507. We are considering rupees at the present moment, silver rupee hoards?—There may be, but I do not think there will be a run on the gold coin. And even in the beginning it is quite possible there may be a run, but as soon as the public realise that they can get gold coin in exchange for rupees, the run will be lessened.

6508. That is an interesting opinion. How long will it take for people to get confidence that they can get gold coin for the rupee. How much will have to go out before it begins to come back again?—About 50 crores.

6509. Have you estimated what the amount of silver rupees hoarded in the country is?—It is difficult to say. All the rupees coined are about 600 crores. The hoards I have not estimated, but it cannot be more than 150 crores.

6510. And of that 150 crores, you estimate that only about 50 will come in?—About 50. As soon as 50 crores come in and gold coin is circulated to that extent, the public will have full confidence that they will have gold coin.

6511. Would you consider it prudent on the part of the currency authority not to provide against the possibility that the whole 150 crores might be tendered?—No. The giving of the gold coin should not be made obligatory on the part of the Currency Department at the beginning.

6512. You would make it obligatory by steps?—Yes. It should be at the option of the Currency Department to give either the gold or the silver coin.

6513. I suppose as a practical man you would say that the Currency Department should not undertake any obligation more than it has got gold enough to meet from step to step?—Yes.

6514. How do you think that the Currency authority ought to get gold in its reserves in order to undertake these obligations step by step?—Well, my suggestion is that a certain number of rupees should be minted every year and the bullion should be sold off.

6515. You estimate here that in order to get that you would have to melt down 12 crores every year. That is from the currency reserve?—Yes.

6516. And you expect that you would get nine crores by selling that 12 crores?—Yes.

6517. Is not that rather an optimistic estimate?—From what point of view?

6518. That for your 12 crores which you melt down you would realise nine crores in gold?—No, it is not optimistic, because I suggest along with that the prohibition of silver import into India.

6519. Can you give me the price per pence standard ounce on which that estimate is based?—Price of silver?

6520. Yes, at the time of these sales?—I have given Rs. 80 per 100 tolas as the internal price.

6521. You could not convert that into pence per standard ounce?—Yes, I could; on what exchange?

6522. The current rate of exchange, 1s. 6d.?—Yes, about 36 pence.

6523. 36 pence per standard ounce?—36 pence in London at 1s. 6d. exchange.

6524. It is about 33 pence now?—It is below 32.

6525. So that that difference at the higher price represents the duty?—It can be taken as duty.

6526. What percentage of duty are you basing that on?—It depends upon what the London silver market is.

6527. You are taking it at 15 per cent., are you not?—More than that, at 25.

6528. And you do not think it is unduly optimistic to suppose that duty at 15 per cent. would keep the price up to 36 pence per standard ounce, even when you are selling 12 crores of silver a year?—No, my suggestion is that London silver shall decline positively, but our internal price will have no connection with the London price.

6529. That is because of your duty?—Not duty—prohibition I mean.

6530. I see, you would actually prohibit import?—Yes.

6531. What effect will that have socially upon the people? Will that be a popular measure in India?—Well, opinion will remain divided rather.

6532. It might be rather acutely divided, if you keep up the price of silver at that price?—The price of silver has been maintained for many years. It is not a new thing in India—higher prices of silver.

6533. The import duty on silver was not popular, was it?—The thing is whether it was popular or not, the consumption of silver was going on.

6534. What is popular is cheap silver?—No tax is popular in the world.

6535. No, but is not cheap silver? Is it not rather a favourite luxury of the people? Doesn't it create a lot of criticism if the Government keeps the price of silver up?—I don't think so.

6536. You get 12 crores a year: 9 crores from the sale of silver and 3 crores, as you boldly say, from additional taxation?—Yes, I first propose to use the interest of the gold standard in the reserve.

* Appendix No. 31.

6537. If there was any further sum to make up, you would have to make it up from taxation?—Yes, Sir.

6538. To get your 12 crores a year?—Three crores only.

6539. Nine crores from the sale of silver and 3 crores from the interest on the reserve, and if there is anything left over, you will make it up from taxation?—Yes, Sir.

6540. How far will 12 crores a year of gold go in carrying out your proposals?—It will take about ten years.

6541. You think it will take about ten years. That is, you need 120 crores of gold first and last?—Yes.

6542. And that would have cost you, according to your estimate, about 3 crores a year for ten years?—Yes.

6543. At the end of ten years, I understand according to your calculation, it will leave you with no further outstanding expense?—No, no further outstanding expense.

6544. That is based upon two assumptions, that you realise the price of the silver and that the gold is adequate for its purposes. Now, let us see what steps you take. You take no steps I understand, according to your scheme, to put gold into circulation at all?—No, I do.

6545. Do you take any such steps?—Yes, I do.

6546. What is that step?—I have mentioned that it should be put into circulation after two years.

6547. You say, " Gold rupees thus minted should not be issued to the public for circulation for the first two or three years. But after that a beginning should be made to issue every year a certain number of gold rupees to the public, increasing the quantity every year." What would be the effect of that in practice? Will these gold rupees stay in circulation?—In the beginning they may not stay.

6548. Then you will simply be increasing the hoards in the country?—Yes.

6549. The more that was taken out and went into circulation, the less you would have left in your reserves?—We have to keep only a limited amount.

6550. The immediate point is this. We cannot do two things with the coin—let it out in circulation and keep it in reserve against the time when you undertake the definite obligation to give gold rupees in exchange for silver rupees?—That undertaking should be taken after ten years.

6551. Most of your gold will be gone?—I do not mean the whole portion of the gold. A certain percentage should be fixed.

6552. If you succeed in getting in by your scheme 120 crores in ten years, as I understand from your recommendations you keep about 50 crores in your reserve against the evil day, and let about 70 crores out in circulation. What is happening in the meanwhile as regards the ordinary expansion of the currency of the country which requires an increase from year to year?—I cannot follow, Sir.

6553. The currency of the country needs a certain amount of normal expansion. That also implies a nomal expansion of the reserves. How are you going to provide for that without absorbing all the gold for these additional new purposes?—You mean seasonal?

6554. Not seasonal, but the normal expansion from year to year?—I think the present circulation is rather big enough to require any further increase in the coming years: 190 crores are already in circulation, and I do not think within the next five years any substantial increase will be required in the circulation of the note.

6555. That would be a way out of that difficulty. There are one or two of your more detailed provisions which I do not perfectly understand at first sight. No. 5 says: " All future currency notes should be issued with the provision—' Payable either in gold rupees or in silver rupees at the option of the Government,' " and No. 6 says: " All future loans of the Government as well as Public Bodies should be issued with the same provision as mentioned above in No. 5." Your note is to be paid in gold rupees or in silver rupees at the option of the Government; will that be a permanent provision?—No, only during the transition period.

6556. And thereafter your note is to become payable in gold only?—Yes.

6557. Then you recommend that " during the period the present silver rupee value should be fixed at 1s. 6d. gold ": is that again to be a permanent provision?—During the transition period.

6558. After the transition period, what do you recommend?—The exchange value fixed at present should be abolished.

6559. And your gold coin is to be what?—Rs. 20 gold coin, weighing 180 grains troy and having 165 grains fine gold.

6560. That is too hard for one who is not a bullion dealer, but as a matter of fact, taking your gold coin 180 grains troy and 165 grains fine, and that being Rs. 20, what ratio is that to the sovereign's worth of gold?—1s. 6d. it will come to. The melting point of the gold coin will be something below 1s. 5$\frac{1}{2}\frac{3}{2}$d., something below 17$\frac{1}{2}\frac{3}{2}$d.

6561. So you are really keeping on the familiar 1s. 6d. ratio?—Yes.

6562. You have not argued the matter in your memorandum. I understand you are not in favour of a return to the 1s. 4d. ratio?—Well, by trying to return to 1s. 4d. the question of a gold standard will be rather deferred for the present. The transition periods will be two in number:—coming from 1s. 6d. to 1s. 4d., that will be the first transition period; coming to a gold standard will be the second transition period.

6563. Do you desire to express any opinion as to what ought to be done as regards the transition period, as regards maintaining the present rate or bringing it down to 1s. 4d.?—It can be maintained by the methods that have been followed up till now, selling Councils and reverse Councils as required; and when 1s. 6d. is fixed, gold can be tendered to the currency for getting an expansion of the currency circulation.

6564. I think that fills out the picture of your scheme. Let me see whether there are any further questions which I can usefully ask you, in order to elucidate your views. What would be the effect of your scheme upon the importations of gold upon private account?—The importation of gold will be decreased in proportion to the gold coin in circulation.

6565. Why should it decrease?—People generally prefer hoarding or keeping gold coin to liquid or bar gold in the absence of the gold coin. All these years people have been accumulating gold bullion, but as soon as the gold coin is in circulation, the consumption of the bullion will be lessened.

6566. You mean they will get their gold from Government in the form of currency instead of buying it on private account? That would be a rather regrettable thing, because your gold currency will go off into hoards?—It can be used by the public. If a man wants gold bullion for hoarding purposes or anything, he buys a certain amount and keeps it at home. If he wants to exchange, he will have to sell back. The difference between the buying and the selling price of gold is always a big amount, while the coin could be easily put into circulation whenever required.

6567. Do you think that, if you are minting gold in India, gold would come out of the hoards to the mints?—Yes. Gold will come out and be minted.

6568. I rather gathered from your analysis that at first it would go back whence it came until people got confidence, that although having a gold coin would result in bullion being brought to the mint for coinage, that would be only for the convenience and assurance of having it in the form of coin, and that at first, at any rate, you would not look for any reduction in the amount of gold held as stores of value?—I think hoarded gold will come out and circulate more freely when the public gets more confidence that it will be available from the currency office.

6569. The more it goes into circulation, the more expensive it will be to the Government. Regarding these amounts which you limit the Government to put into circulation at first, do you think, even if they do remain in circulation, they won't flow off into hoards? Do you think they will produce any real effect in inspiring confidence that gold is obtainable?—It will do much to inspire confidence.

6570. What I seo is this possible fear. Supposing a very substantial part of that gold did not stay in circulation but went back into hoards, what would you yourself contemplate as a first possibility? The limitation to this amount for a year, which is all that you can contemplate, will mean that there will be so little gold available for circulation that it will not really have those educative influences to which you refer?—I firmly believe that the hoarding habit will be lessened as the confidence is increased day by day and lax money will come out for investment purposes more and more.

6571. There is no difference of opinion about the tendency?—The larger public is day by day getting more educated.

6572. The only question is whether these measures would be so substantial in amount as to have any very appreciable effect in producing that tendency towards further education? It might be put against you by a critic that the amount remaining in circulation would be so small that it would not really have any effect in inspiring confidence?—It cannot be so small. How can it be a small amount?

6573. What do you allow a year?—Twelve crores' worth of gold I propose; that comes to about £10 million a year.

6574. Surely not so much; it is only 7 crores?—But the public knows that there is gold in the currency; that is sufficient.

6575. The public may know that there is some gold there, but they may say that there is not much gold for you and me?—The people, those who are of that idea, are rather more poor; there are some backward classes, but they are poor enough to have no gold.

6576. (*Chairman.*) Are there any supplementary questions to ask Mr. Mehta on his interesting scheme?

6577. (*Mr. Coyajee.*) Might I mention to you, Mr. Mehta, that the name which you propose for your gold coin is rather anomalous and inconsistent, because the rupee means a coin made of "rupa" or silver, and a gold rupee is a rather inconsistent title. Of course it is a little detail, there is nothing in it. A rupee means made of "rupa"; yet it is a coin, and a gold coin and a silver coin are, all tho same, coins; as used in America, for instance there are gold dollars and silver dollars?—In suggesting a name there is nothing very particular about it; any name can be given. That was only my suggestion. The name "mohur" or any other name may be given.

6578. Now are there not two kinds of demand at present for the rupee, one for the rupee as currency and the other to some extent for hoarding? You told the Chairman that about 150 crores of rupees had been hoarded. Similarly there will be two kinds of demands for gold, one for currency gold and the other as a store of value?—Yes; I think that gold has been sufficiently accumulated at present and hoarded and that at least for some years no gold will be required for the purpose of hoarding.

6579. You mean hoarding habit will disappear? Only the banking habit will be largely developed, and that cannot be developed in one or two years, and therefore there will always be a certain amount of currency being diverted into hoards?—Yes.

6580. That being the case, why do you think that the 150 crores of rupees in hoards will not all be brought forward for substitution into gold?—It may be brought forward; but it will not be obligatory for the Government to give gold coin. It is not obligatory in the beginning for the Government to give gold coin. It is at the option of the Government.

6581. But as soon as there is any opportunity for the Government giving gold coin freely, the hoards will come forward?—Yes; but the confidence will be strengthened day by day and the hoarding will be lessened.

6582. Supposing my confidence strengthens; still why should I hoard silver and why should I not get gold for it and hoard it in that form?—Yes; they would change it into gold. That is, I have taken it at 120 crores for purposes of changing.

6583. Then you propose to prohibit the import of silver bullion into India and the imposition of an import duty on silver?—No; I do not mention about the imposition of the duty.

6584. Very well; the prohibition of import. Does not that mean a sort of taxation, a special taxation, on the consumers of silver in India?—It is.

6585. And that means the transfer of some of the burden by bringing in the gold standard?—To the Indian public.

6586. Not to the Indian public in general; but to a special class?—I do not think there is any special class who use silver. Almost all people in India do use silver, either rich or poor.

6587. The rich will use largely?—Yes, they use it much more. All their utensils will be of silver.

6588. (*Sir Alexander Murray.*) During the past four years we have taken on an average 18 crores of rupees worth of silver?—Yes.

6589. Then you propose selling in each year 11 or 12 crores?—Yes; along with that I mention that more rupees should be melted if there is demand. In any case if there is a greater demand than 40,000 bars a year.

6590. You think there will be a demand if we put up the prices so high as 38d.?—There is no question of London prices in India.

6591. It will be an equivalent of that?—No; it has no connection. The internal price of India will be rather arbitrary.

6592. Can you keep India in a water-tight compartment in the matter of price of silver?—You won't be importing from America or China or whatever it is. Therefore there would be in effect the equivalent of 18 crores of rupees of silver thrown on the other markets in the world for sale. Yes; the excess of production in the foreign markets.

6593. Well, that would mean that prices of silver in foreign markets will drop from being 32d. to being probably 22d.?—Not 22; but they will drop.

6594. And you think you will still be able to maintain India in a water-tight compartment by itself with the price of silver normally at about 34d. or 38d. while in the rest of the world it is only 24 or 22?—There was an import duty on silver at one time and the world price was below the Indian price at the time. There was 15 per cent. duty and there was vast difference between the world prices and the Indian prices and India is accustomed to it.

6595. Every time there has been any change made in silver currency?—This is not a change in currency.

6596. But I was going to say, for instance, after the Franco-Prussian war in 1873, the price of silver dropped right away down and you do not think there will be a drop outside India which will cause trouble in India if you force people in India to pay for silver in India, you say they require it for marriage and other purposes, to pay something between 34d. and 38d. for that?—It will not be more than 36.

6597. On the basis of 1s. 6d. But if it comes to 1s. 4d. it will be more?—Something between 34 and 32.

6598. Can you reasonably expect the people in India who are consuming great quantities of silver for religions and other purposes, to be contented to pay prices in India, as I say, equivalent to 36d. when prices elsewhere in the world will be 24d.?—The difference is rather vast. You take 24 and 38. India has been accustomed to pay 15 per cent. duty. That

is an open thing. According to my plan the difference will be about 25 per cent. below 28d.; in the mines the production of silver will be lessened and the world prices of silver, I do not think will go down very much.

6599. It has dropped to 21?—It may drop.

6600. It will drop and you don't think there will be any grievance in the minds of the people of India, rich and poor, against the Government?—That question is rather clear. Government imposed a duty of 15 and what was there? There are always two sides and it is for the sake of India, to give a gold standard.

6601. (*Sir Maneckji Dadabhoy.*) In paragraph 7 you state " During the period present silver rupee value should be fixed at 1s. 6d. Gold." I understand that you want to fix this ratio of 1s. 6d. during the transition period as, otherwise, in your opinion, it would jeopardise the foreign gold standard? That was your argument?—Yes, one of my arguments.

6602. I would like you to develop this argument and make it more clear. The first thing for going from 1s. 6d. to 1s. 4d. is the transition period. To come from 1s. 6d. to 1s. 4d. would require a certain period; it cannot be within one day or one month. Otherwise it will involve heavy losses to the public, the trading public. In other words it means that there would be two transition periods, one for gold standard and one for the other. That is your contention?—Yes.

6603. What do you mean then in the last and final paragraph where you say " Finally, to fix the exchange value of rupee at 18d. or at 16d., or at any other point, without putting into operation the workings of a well-fixed programme for Gold Standard " and so on?—What I mean is at present only gold exchange standard is adopted and any price value of rupee being fixed without trying to go to the gold standard, I don't like. Without putting into operation the working of the gold standard, how to reach to the gold standard?—We should begin that plan now; that is what I want. Without beginning that plan of reaching to gold standard, only to fix the value of the rupee, that I am not in favour of.

6604. What will be the transition period in your estimate for the gold standard?—About ten years.

6605. Supposing during that interval one or two famines take place. Will you be able to maintain the ratio of 1s. 6d.?—It can be maintained.

6606. How?—By selling reverse councils.

6607. Then you would recommend in that case to sell reverse councils and maintain the exchange?—Yes.

6608. (*Sir Henry Strakosch.*) First of all, where you speak about the deficit of 3 crores which will have to be made good, you say that that amount will have to be met by the Government either by revenue or by interest received on the securities in the gold standard and paper currency reserves. You are aware no doubt that the interest received from the securities held in the gold standard reserve go to revenue now; so that it really means that the expense would have to be met by taxation?—Yes.

6609. Then there is one other point. You suggest total prohibition of silver into India. You probably remember the war period when the import of gold was prohibited. Did you hear of any imports of gold while this prohibition was in force? Did not India import rather substantial amounts of gold while the prohibition was in force?—It did because, no silver was available at the time.

6610. Well, if you prohibit the import of silver and the people of India want to have the silver and if the difference of price between the silver outside India and inside India is very big, don't you think that in spite of the prohibition, a great deal of silver will be imported?—How?

6611. Exactly in the same way as gold was imported during the war when there was a prohibition on the import of gold?—This is a question for the Government to enforce their rules and regulations.

6612. But is it physically impossible, if the inducement is big enough, to really prevent?—In the first place I think that the inducement will not be big enough. The highest it will reach is only 25 per cent.

6613. That is a big percentage?—There was a duty of 15 per cent.

6614. Now another point. You suggested that the price of silver to be fixed by Government should be Rs. 80 per 100 tolas. The present price is 72. Now another witness told us that the people of India are in the habit of buying silver freely when the price of silver goes down to Rs. 60 per 100 tolas, and that the purchases of silver as the price rises, diminishes?—I admit.

6615. Do you not anticipate that, if you fix the price of silver at Rs. 80, the people of India would consider silver dear and gold cheap, gold by that time having been fixed at whatever it may be? Would not the logical effect be this: that the people of India would prefer to buy gold rather than silver?—Accordingly I estimated the offtake of Indian silver at only 40,000 bars. It is at present about 75,000. I have made the estimate less because in view of the higher prices the offtake may diminish. I have assumed that and have taken only 40,000 for Indian consumption, instead of 60,000 or 65,000 as at present. But silver is required for purpose that cannot be replaced by gold; certain things which are done with silver must be done with silver and it cannot be replaced by gold even if the gold rate is 18.

6616. But is it not a fact that people have been buying gold so freely because they considered it cheap, in recent years?—Yes, in recent years.

6617. Is not that going to continue and be accentuated if the price of silver is raised to 80?—Not to any extent affecting the consumption of gold.

6618. You do not think so?—No.

6619. (*Sir Reginald Mant.*) Mr. Chunilal, do you intend that your new gold coin of Rs. 20 should be of the same fineness as the present sovereign?—I have mentioned the fineness, shall I work it out?

6620. Yes, I would like you to work it out. It comes to eleven-twelfth fine, the same as the sovereign. The sovereign weighs——?—123 grains, eleven-twelfth fine, the fine gold in the sovereign is 113 grains.

6621. Well, it works out to the same thing?—Approximately.

6622. (*Sir Purshotamdas Thakurdas.*) You attach such importance to India having a well-fixed programme for a gold standard that you think the question of cost to the tax-payer should be regarded as secondary in this connection?—Yes, Sir, I think that.

6623. You in fact put that as the most important question to be solved for India, the way in which to get a well-fixed programme for the gold standard?—Yes.

6624. You also say that India will have to pay a very heavy price for having to go to a gold standard with a gold currency?—Yes, Sir.

6625. Is it your opinion that the longer the delay in going to a gold standard and gold currency the more will be the increase in this heavy price to be paid?—Yes.

6626. Why?—The more rupees in circulation or with Government the more the depreciation.

6627. The greater the stock of token coin the greater is India's loss?—Yes.

6628. And although you realise that a gold currency will entail a higher cost, owing to what you call the people being less educated and less civilised——?—I do not say the heavy price.

6629. But I am reading from your own statement, Mr. Chunilal, on the first page. In spite of realising that it will mean to India a heavy price you think a gold currency is absolutely necessary with a gold standard to inspire confidence in the people in this currency system?—Yes, Sir.

6630. Now you just now told us that you selected 1s. 6d. gold for the purpose of attaining the gold standard earlier. You said that if you suggest any change in the ratio it may delay the gold standard which you are aiming at so anxiously. Yes, Sir. I said that it is one of the arguments that it will delay reaching the gold standard.

6631. That is one of the arguments. Well, supposing you were told that it need not delay the starting of the gold standard programme would you have any other opinion to give regarding the ratio?—Yes, if it is fixed at 1s. 4d. with the same programme for a gold standard it will be more benefit to India.

6632. You would prefer that?—Yes, I would prefer that.

6633. Why do you dislike 1s. 6d.?—Because it is detrimental to Indian agriculture and industry, both.

6634. In your opinion 1s. 6d. is detrimental to both agriculture and industry?—In comparison with 1s. 4d.

6635. Therefore you are prepared to make even this further sacrifice, namely, that the country might also suffer this further loss provided you get your gold standard programme started at once?—Yes, Sir.

6636. You have been a cotton and bullion broker and commission agent?—Yes.

6637. You also have been a bullion broker and commission agent?—Yes, Sir.

6638. As commission agent in cotton, do you deal with up-country or are your activities restricted to Bombay?—Both.

6639. Why do you say 1s. 4d. is preferable in the interests of the country?—Internal prices would then increase and the agriculturists would get more money.

6640. Mr. Mehta, it has been pointed out to us in evidence by those who support 1s. 6d. that the increase in prices by reversion to 1s. 4d. will mean increase in the cost of living and will hit the labouring classes and the middle classes. How do you reconcile that with your opinion that 1s. 4d. is to the interest of the country?—Comparatively 1s. 4d. will not be so detrimental to Indian interest; it won't hit hard the poorer classes.

6641. You said prices will increase; the cost of living will also increase?—Yes, but the income also will increase. The prices realised on the produce will be more.

6642. With 1s. 4d. the income will increase?—With 1s. 6d. the income goes down and the cost of living goes down too.

6642A. Where is the gain?—The gain is in 1s. 4d.

6643. How, if the cost of living increased side by side with the income and if the cost of living goes down side by side with a reduction in income. It is square.—No, the income is rather more than the cost of living goes up.

6644. Will you explain that in greater detail if you will?—Well, supposing the price realised at 1s. 6d. is Rs. 360 per candy of cotton, at 1s. 4d. the cotton price will rise to Rs. 400, approximately, and the labourer or the agriculturist will not require that amount of Rs. 40 as the increase in living cost.

6645. It is contended, Mr. Mehta, that in that case the cost of labour will go up, the cultivator will have to pay his labourer more?—The cost of labour has already gone up.

6646. It may go up further with the cost of living increasing?—The cost of living is already high enough.

6647. You do not think that with the reversion to 1s. 4d. the cost of living will go up?—It would go up no doubt but not to that extent.

6648. To the extent of the extra Rs. 40?—Yes, Sir.

6649. May I then take it that you are of the opinion that 1s. 4d. is desirable and you do not recommend it only because you are very anxious to get a well-fixed programme for a gold standard?—Yes, Sir.

6650. And any amount of taxation should be a secondary consideration in introducing this gold standard?—Yes, Sir.

6651. (*Sir Alexander Murray.*) Mr. Chunilal, in reply to Sir Purshotamdas Thakurdas you said that if the price of cotton was 360 per candy at exchange 1s. 6d. then at 1s. 4d. it would come to Rs. 400. But as a matter of fact the price of cotton is controlled by the price of American cotton?—Yes, that is one of the factors; but exchange is also another factor.

6652. Now exchange has been steadily rising for the past year, or two from 1s. 4d. gold to 1s. 6d. gold. The price of cotton during the past year or two has been steadily dropping?—Yes. The exchange has its effect not only on cotton but on all export articles; but the price of commodities is connected not only with foreign prices but with exchange also. It is not only foreign prices that influence the price of commodities.

6653. The American price of cotton does control the price of cotton in this country.—It is only one of the factors, and it is not the sole factor.

(*Chairman.*) We are very much obliged to you for your attendance here to-day.

(*The witness withdrew.*)

The Honourable Mr. H. S. LAWRENCE, C.S.I., I.C.S., called and examined.

6654. (*Chairman.*) Mr. Lawrence, you are a member of the Indian Civil Service and the Finance Member of the Government of Bombay, a position which you have held for some years now?—Yes.

6655. You have been good enough to furnish the Commission with a memorandum* which sets out some opinions and an analysis of the currency problem. I understand that your evidence to-day will be in your personal capacity and not as a representative of the provincial government?—Entirely; yes.

6656. I would, if I may, ask you a few questions to elucidate the opinions expressed in your memorandum. You make two quotations from the Report of the Royal Commission, of which Sir Austen Chamberlain was Chairman. The first quotation summarises itself in the last sentence that the Government should continue to act on the principle of giving the people the form of currency for which they ask. When I refer to the Report, I find from the context that what the Commission was thinking of there was some form of metallic currency, whether silver or gold?—Yes, I think so.

6657. And that it was not an opinion expressed as to any difference between a gold exchange standard or a gold currency standard?—No, I think not.

6658. In the second quotation which you make the Commission said: "Any attempt to refuse gold to meet these legitimate demands would be unjust and foredoomed to failure and could only cause alarm and instability." When I refer to the Report again, I find that from the context the legitimate demands for the gold in question really refer to what we for short call gold for hoards, and that that was the legitimate demand which the Commission had in mind in making this recommendation. The Commission said: "The line between gold in hoards and in circulation is an indefinable one, and the hoarding habit is sanctioned by the experience of centuries in India and by religious and racial laws and customs with which the Government of India have neither inclination nor power to interfere: any attempt to refuse gold to meet these legitimate demands would be unjust and foredoomed to failure and could only cause alarm and instability." Now, I will refer to paragraph 3, if I may, of your memorandum, and particularly to the final paragraph where you say: "But the advocates of this view do not refer to the discussions of the Genoa Conference and are possibly not acquainted with the contrary arguments." What, in your opinion, are the chief contrary arguments in

* Appendix No. 32.

this connection?—I think that comes on in the next paragraph, the danger of great appreciation of gold.

6659. The danger of great appreciation of gold, that is one. Do any others occur to you? We have had in evidence a certain amount of discussion on the subject of the expense of a gold currency as contrasted with an exchange standard; was that in your mind as a contrary argument?—That certainly is one of the contrary arguments of great importance.

6660. Is there anything else that occurs to you of perhaps equal importance with these two considerations?—Well, I should like to explain that so far as my personal views go on the subject, they are of no value at all; because I have no connection with the management of currency in this country and never had it; it is entirely a matter for the Government of India. All that I have done is just to put together some of the principal arguments that occurred to me from a cursory reading of the subject.

6661. I appreciate that, and if I may say so I think it is of particular interest that what you have really done in your memorandum is to give us what you find to be the leading considerations present in the mind of the instructed public on this question. You enable us thus to arrive at a clearer idea as to what the public opinion is with which we have to deal. So that throughout I look upon your views, if I may say so, just as you have told me, as not being your own views, but what you know to be present in the minds of instructed public opinion?—That is what I have attempted to put forward.

6662. Precisely; and what I am really asking you to elucidate is, as it were, the instructed public opinion all over the country, and not your own opinion?—So far as I am acquainted with it; that again is a secondhand acquaintance.

6663. We shall not under-rate the extent of your acquaintance. I just want to be clear what you mean when you say. "A currency policy unwisely adopted may therefore intensify the disruptive forces of civilisation." I understand you are referring to the possibility that, if gold be appreciated greatly by a sudden new demand, salaries and wages may not adjust themselves to the new standard of values until some time has elapsed?—Yes, certainly.

6664. That is the intensification of the disruptive forces to which you refer?—Yes.

6665. I am not to ask you your own opinion as to the possible effects upon the world gold market of such a demand for additional gold?—I am afraid it would be worth nothing.

6666. I could not agree that it would be worth nothing; but I must respect your reserve on the subject. Then you say "Since the rupee has remained stable in the neighbourhood of 18d. for over a year now, there is every reason to suppose that it could be stabilised at about that rate." Are we to take it that that is the common opinion?—I think it is a common opinion that it could be stabilised; but in Bombay certainly it is the common opinion that it should not stabilised at that rate.

6667. What do you believe to be the common opinion of instructed people as to the effect on the maintenance of a 18d. rate of a couple of bad years, bad monsoons or bad trade?—Well, there would be some anxiety that the Government of India could not do anything effective to maintain the rupee against a succession of bad monsoons. I do not know that two monsoons would be generally considered to be sufficient to break the exchange; but we have had a series of more than two bad years in succession; if it went on for three or four years, I suppose most people would say that the rupee could not be maintained.

6668. Do you, or do you not, find it commonly recognised that one rate is no more difficult to maintain than another, given that the adjustments in the way of contraction or expansion of currency necessary to adjust prices to their levels have been completed?—I think the answer to that must be "yes"; it would be possible if the adjustments are ready for adoption.

6669. "There is reason to believe," you say, "that the importation of gold bullion and sovereigns of over 200 crores in the last 6 years has supplied the demand which, during the war, could not be met, and that the country is now fairly replete." Does that mean that the arrears have been made up, and that what we are to expect in the future is only the normal average demand for gold bullion for India, or does it mean that the requirements of the country have been anticipated for some time to come, and that we are to expect a falling off in the demand for gold?—I think it means that the arrears have been made up. I believe that the importations used to be somewhere about 20 millions over a period of years, though recently the average is over 35 or 36; and I see that in a recent report of the Controller of Currency, for 1924 I think it was, he formed the opinion that the demand would go down to the previous rate; as far as I understood it, he meant that it would be about 20 millions in the future instead of over 36.

6670. So that the reference to repletion means, I understand, that we shall now get back to the normal demand such as we have in an average year?—Yes.

6671. Not that no more at all will be required?—No.

6672. You quite clearly argue that the balance in favour of India would tend to raise the rupee to a higher value, that it would be a force tending to keep the rupee at a high value; but I imagine that it would tend to correct itself, would it not, in course of time owing to the encouragement of other imports by the higher gold value of the rupee, so that we should look upon that as only temporary?—That is an accepted theory.

6673. In the next paragraph you say "Since there is no clear indication that the interests of the country have been injured by the variation in the level of exchange in the last few years there does not appear to be any urgent necessity for measures of stabilisation." When we are considering the intrinsic desirability of a stable exchange value for the rupee, what importance would you attach to the facilitation of the investment of foreign capital in India?—Well, we have recently been told that there is plenty of capital in India to serve its own purposes if it could be drawn out and that investment of foreign capital, while still desirable to a great extent, is not of the same urgent necessity as it was in the early stages of industrial development in India.

6674. To induce the people of India to invest their accumulated savings in the development of India is, of course, the major object for everybody who considers this question, is it not?—Yes, certainly.

6675. All parties, all schools, put that before them as the object to be served?—I think everybody is agreed on that.

6676. The only difference being as to how that object can be best and quickest served?—Yes.

6677. Nevertheless, we can perhaps recognise that a stable rate of exchange is of assistance to a country which is in need of capital for its development by facilitating its flow from abroad?—Yes, certainly.

6678. I suppose also from the point of view of the export and import trade of the country it is the common view that, as trade is hampered at any rate by violent fluctuations in exchange, it is a sensible view?—Yes.

6679. So that there are definite objects to be served by stabilisation of exchange?—Yes, but as between stabilisation of exchange and stabilisation of prices, I stated further on that stabilisation of prices is the more important.

6680. Yes, but the other object must not be lost sight of. However, you come to the conclusion that, on the whole, the time is ripe for a forward move. You express the opinion in paragraph 10 that a

rising rupee encourages imports and a falling rupee encourages exports. The encouragement in each case is temporary until wages have been adjusted to the new levels. Do you consider that wages in India are likely to be more or less sensitive to such influences than they are in the countries of Western Europe?—I think they are less sensitive. They have not got the same organisation for their own protection.

6681. The organisation is weak?—Very weak.

6682. On the other hand alternative employment is more available, is it not, to the industrial worker in India than it is in, say, a purely industrial country?—Yes, certainly that is the experience in Bombay City. The cotton mill hand can get back to his fields and he generally does spend part of every year in cultivating or harvesting. That is the great safeguard to his position.

6683. Does that make a bargaining factor which to any extent makes up for the looseness of his combination? He says: "I don't like this job, I can go off to my village"?—Yes, I think so.

6684. Very important, of course, in considering this question of readjustment is the question whether the cost of living is sensitive in India, as it is elsewhere, to changes in the gold value of the currency, as expressed in exchange rates. We have heard a certain amount of discussion as to whether the cost of living is sensitive to these changes, particularly in relation to the cheapest foodstuffs which form the staple of life at any rate of such a province as Bombay. A little lower down the page, you refer to the opinion that the price of wheat reacts on all other food grains, and thereby on wages and the cost of production of every industry. It is a fact, I understand, in your experience, that the price of a world foodstuff such as wheat has a definite re-action on the price of these Indian grains which are the chief staple of life to the poor?—I think there is no doubt about that.

6685. Have you been able to follow that out at all in your experience?—Well, of course, the circumstances during the war were subject to many abnormal factors. But during the war, there was much export of wheat and there was great scarcity at the same time of other grains. It is very difficult to say that it was the rise in the price of wheat that sent up the price of all other food grains, but it did coincide. And there has been a great turnover in the consumption from the cheaper food grains to wheat in various parts of the country, the Punjab and Sind in particular, and there the price of wheat undoubtedly is the governing factor.

6686. I might follow that up by a step which is possibly theoretical, but none the less it may cast some light upon this problem. Supposing we were to try now to reduce the rate of exchange to 1s. 4d., that would have to be done, would it not, by reversing such processes as have led to a rise to 1s. 6d.?—Yes.

6687. Those processes were the contraction of currency, and the reverse processes would be the expansion of currency?—Yes.

6688. If you expand currency under these conditions, it means you have more purchasing medium in the country in relation to the stuff to be bought?—Yes.

6689. And I suppose one would expect that to affect all prices in the country?—I think it would have that effect.

6690. Whether the goods were partially exported or entered into the world's markets or not?—I think it would have a universal result.

6691. Apart from the merely theoretical basis, I understand it would be an ordinary calculation which you can confirm from your experience as to the effect of these changes on the prices of these stuffs?—Yes.

6692. Then, you say that "Some advocates of this school of thought regard the depreciating currency of continental countries as a positive advantage, and have failed to give due weight to the strenuous efforts which such countries as France and Italy are making to raise their exchanges." That is an illuminating comment, about which we have heard something but not much. What would you say was the essence of the evil which those countries are seeking to rid themselves of by stopping the depreciation of their currency?—The essence of the evil?

6693. Yes?—I take it to be the disturbance of social relations, maladjustment of wages and salaries and the consequent pinch for all the lower and middle classes of society.

6694. A general disturbance of the relation between debtor and creditor. In that you refer to the middle classes, by which I understand you are suggesting that the creditor who would feel such a movement most is particularly a member of the middle classes who had invested his savings in some fixed interest bearing security?—Yes, certainly.

6695. And a fall in the gold exchange value of his currency acts as a concealed tax in addition to his Income Tax?—Yes.

6696. That has been carried so far in countries with extremely depreciated currencies that it is likely to reduce the rentier classes to extermination?—Yes.

6697. Your argument based upon that is that although there may be no question of such extreme depreciation in this country, yet in proportion as you reduce the rate of inflation you should reduce proportionately these evils of injury to the fixed investor and the creditor classes of the country as a whole?—Yes.

6698. Then we bear in mind that we have agreed, have we not, in the course of our discussion this afternoon, that the great object that we want to set before ourselves is to teach the people of India to invest?—Yes.

6699. So that we have to bear in mind that we may not be promoting that object if we impose anything in the nature of a concealed tax upon them?—Quite so.

6700. Now let me look upon the other side of the picture and ask you how you would describe Indian opinion in relation to the advantages of a reduction to 1s. 4d. What is your opinion as to the advantages that would be conferred in particular upon the cotton industry of Bombay?—Well, the common belief in Bombay appears to be that with the rupee at 1s. 4d. the cultivator will get more money for his products and will be able to invest more largely in cotton goods. That is not borne out by some recent researches by Dr. Mann, who is Director of Agriculture here, who investigated the result of high prices on village conditions in the Deccan. He came to the conclusion that the great majority of cultivators did not benefit by higher prices on the ground apparently that they had so little surplus to sell. I do not say that Dr. Mann's investigations received general support but he is an investigator of some reputation and that is a theory that he recently put forward.

6701. Nevertheless a fall to 1s. 4d., achieved by such measures as you describe, would undoubtedly increase the price which the cultivator would receive for his produce?—It would for such proportion as he sells, of course. The great mass of petty peasant proprietors do not have a considerable surplus to sell; they very largely live on their own cultivation.

6702. The absolutely self-contained agricultural unit, which produces all that it consumes and buys and sells nothing, and is removed from all possible influences of any sort or kind from the outside world, can practically be left out of account; it cannot be effected for good or ill; but if it has any surplus to sell, the peasant would undoubtedly get a larger money price?—Of course that is in the case of the great commercial crops and not food-grains; for instance there is a certain area in Bombay which

grows chiefly cotton. They necessarily would receive higher prices because they depend on the price of their cotton to buy the other food-grains, but that factor is not to be over-estimated because the whole cotton cultivation of India does not represent much more than 5 per cent. of the cultivation of India.

6703. Are these cotton growers employers of labour?—Yes, the cotton grower employs a considerable amount of labour for the picking of his cotton.

6704. What would be the ultimate reaction upon these cotton growers of a general rise in price levels, including the price of their product, cotton?—I should think that probably it would encourage the cultivation of cotton. Any higher price of cotton will encourage the further cultivation of that crop.

6705. Then looking at the millowners, the manufacturing interests, how will they stand when things have worked themselves out?—They think that they would profit by a lower rate, but I doubt, when the rupee is stabilised and has reached a certain figure and remains constant there, I doubt whether their operations would be affected one way or the other.

6706. Are you thinking of a rise in their wages bill, because some evidence has been given to us to suggest that there would be no rise in wages as a result of the rise in prices which would follow on the introduction of the 1s. 4d. rate?—I think it would take some time for the employees, for the mill-hands, to be able to secure a further increase of wages, but if prices remain high for a considerable period, it would undoubtedly lead to a greater industrial unrest; they have had several strikes within the last year, and they would probably have more strikes in the future, and the mill-owners might adopt the policy of raising the wages of their mill-hands for safety.

6707. There is an intermediate passage in your memorandum in which you refer to some aspects of the tariff question, which you introduce with the statement, with which we concur, that the Currency Commission are not concerned with the tariff policy as it might lead to a formidable extension of our inquiry. But I wanted to clear up a point which may turn out to be of some importance as regards the idea of such legislation as that which has recently been adopted both in this country and in England. You say that "The principle was accepted in the orders passed last February for the safeguarding of industries in England, and was put into force in Australia on March 25th last for protection against the depreciation of Japanese currency." The principle to which you there refer is that of assisting the export industries of a country, to protect them against an appreciation of their own currency and those hindrances to export which are recognized to result in such an appreciation. But if we refer to the English policy, it was contained in the Safeguarding of Industries Act of 1922, and that was rather the converse, was it not,—an attempt to protect selected industries against other countries' depreciated currencies?—Does it not have a similar effect to the appreciation of the home currency in terms of the foreign currency.

6708. It is quite true that there are two aspects. Nevertheless, there is probably an active movement downwards or upwards in the one, while the other remains passively at rest. There are very minor changes in the value of English currency, while there is an active movement in foreign currencies, and the facts that you are considering here affect the movement relatively of Indian currency. That leads to a question I wanted to ask, *viz.*, whether your study of the result of the English experiment would lead you to agree with the contention which has been widely advanced, that our experience under the Safeguarding of Industries Act shows that the amount of advantage which might be given temporarily by a violently fluctuating currency was so great that it is quite impossible to counteract it by any tariff, and, in particular, the maximum of 33⅓ per cent. which was the tariff originally selected under the Safeguarding of Industries Act, was perfectly inadequate for that purpose, and that some of these temporary advantages would be of a quite different order of magnitude?—I believe that was so.

6709. Indeed our experience of this as a measure to smooth out changes in trade, and the variations of trade produced by changes in the value of the currency, is not a very fortunate one?—Not when the currency fluctuates so violently as it has done on the Continent. But in regard to the recent Australian action with the Japanese currency, I understand that the depreciation in the Japanese currency is somewhat on the same scale as changes in the Indian rupee. Now it has gone up to 1s. 9d.,—in any case it was never more than 35 per cent.

6710. The arguments which you refer to in your memorandum which express, as you told us, something of the nature of what you call the best instructed opinion in India, are summarized in the concluding paragraphs. Those of a most direct interest perhaps are in paragraph (*c*), where you arrive at the conclusion that, "With the balance of trade greatly in favour of India, the rupee if uncontrolled would probably rise to a moderate extent. It is probable therefore that the Government of India would be able to stabilise the rupee at such moderate rate as they might decide; but a return to a 2s. rate would be unwise," the chief influence being that to which you have already referred, that is the cessation of the imports of gold bullion; and in your final paragraph you say that although "the rate of 1s. 8d. would be probably possible, in order to avoid unnecessary disturbance in trade and commerce, the present existing rate of 1s. 6d. between the gold points should be adopted and would be most easy to defend." There is just one final question I would like to ask, and that is this. We have had certain evidence with reference to the question of the currency system which should be adopted in India, whether it should be a gold exchange standard system or a full gold standard system with a gold currency. We have had evidence to the effect that the cost of introducing a full gold standard with a gold currency would be eventually some 1½ crores per annum; and, if I may, I would ask you to assume that figure, 1½ crores, as the charge. We have had other evidence to the effect that the reduction of the rate from 1s. 6d. to 1s. 4d. would impose an immediate additional burden of 3 crores a year on the Budget of the Government. Will you assume, therefore, that the cost of introducing a gold currency and at the same time reducing the ratio would be something of the nature of an annual charge of 4½ crores. I want you, on the other side of the picture, to consider for the moment, if you will, the obligations of the Government of India to the provinces in respect of the remission of provincial contributions. What, in your opinion—(I think I may fairly ask you your own opinion on this)—would be the rights of the matter as regards the choice between those two objects? Would it, or would it not, be right for the Government of India to incur this additional burden for currency purposes in preference to a remission of provincial contributions? Or would it be right for the Government of India to say that the remission of provincial contributions must come first, and that currency reform as involving further expense should come second? Or do you see a possible third alternative?—Well, the Government of India have several times announced that they consider the reduction of the provincial contributions to be of primary importance. The Government of Bombay have equally strenuously maintained that the reduction of provincial contributions should not be the important policy of the Government of India; so that, so far as Bombay is concerned, if the gold currency and the reduction of the rupee to 1s. 4d. did cost 4½ crores of rupees and if they led to greater prosperity in India, we should certainly prefer any measures adopted to greater prosperity in India rather than any measures tending to the abolition or cancellation of the provincial contributions. I

may perhaps mention that the Government of Bombay are the last Province to receive any material benefit from the cancellation of these provincial contributions. It so happens that the other provinces have a prior claim according to the system that has been established. That system is strongly disapproved by the Government of Bombay. They are very nearly last on the list for any advantage and I do not claim to speak without prejudice in this matter. From the point of view of Bombay, we should not attach much importance to the removal of the provincial contributions.

6711. (*Sir Henry Strakosch.*) Mr. Lawrence, you stated, and I think everybody is agreed, that it is of supreme importance for India that her people should cease to put their savings in entirely unproductive things such as gold and silver and that they should put those savings into forms which would help to develop the country. Now there are two schools of thought in this matter; one suggests that the only way, the best way, of inducing the people to save is to give them a gold currency, gold in circulation in the country and that that in itself will induce them, having gained confidence, to put their savings into instruments of credit; and the other school suggests that a better way would be to first educate the people in investing their savings on productive things, and then, when that was done and when the danger of hoarding is removed, give them a gold currency. Which of the two alternatives in your view is the more likely to achieve the end?—By what method to educate the people?

6712. By offering them instruments of credit such as cash certificates or possibly increasing the rate of interest allowed in the post-office, expanding the banking organisation of the country, establishing a central bank which would make banking safer and such like.—Yes. I think in either case it will take a long time before the hoarding habit is appreciably removed; because I think that hoarding habit is due in part to a desire to conceal wealth from a sense of insecurity, and up-country that sense of insecurity still prevails; and I think it will be a long time before either a gold currency or banking facilities will reach the people.

6713. Even a measure which would lead to putting a large amount of gold into circulation would not, in your view, expedite that process? Would it?—Perhaps there may be some effect. But I don't think any great effect. I do not think it will be of sufficient importance to make it a conclusive argument in favour of the gold currency.

6714. Then one other question; if a gold currency were introduced, opinions are divided as to what would happen to the hoards at present invested in silver rupees. What would happen to the hoards invested in silver bullion and the note circulation? Would you say that, if gold were freely offered, and if simultaneously with that offering of gold, the status of the rupee were reduced to that of a token of limited legal tender, these hoards would be exchanged for gold?—I think there will be powerful incentive to do so. I think a very large amount of silver would be changed into gold.

6715. Have you considered what the size of those hoards is?—I have seen certain figures; I know they are of very large size.

6716. Is it possible to approach the true state of things more closely than the estimates that one generally hears?—I do not know what data those estimates are based upon. I have not got any opinion on that point.

6717. Do you anticipate in these circumstances that the note circulation will be reduced, people preferring to hold gold coin to notes?—For actual currency?

6718. Yes, for actual currency?—Daily marketing and so forth?

6719. Yes?—No; I think the note habit has grown very widely while people keep gold locked up at home. A ryot when selling his produce will sell it more readily for gold than he will for notes. It is true that the gold must pass from hand to hand to a certain extent; but if he can, he will put the gold into the reserve and circulate the notes.

6720. And if the notes remain in circulation, would you say that the reserves to secure the exchange value of those notes and stabilise the exchange, have to be smaller or greater than the reserves under the present system?—That is outside my experience.

6721. Then there is just one point with reference to the statement you made regarding the possibility of an appreciation in the purchasing power of gold and to the Genoa resolutions. You don't wish to express a view in that regard? But may I ask you, do you regard the question of the effect of a substantial absorption of gold in India upon the purchasing power of gold of first importance when we consider whether it would be advisable or not to introduce a gold standard with gold currency in circulation in this country?—Do you mean whether the danger of the appreciation of gold will be serious?

6722. Or let us say, the effect of such an action upon the price of gold; is it a question of the first order which has to be closely investigated before any such step can be taken?—Certainly, it requires a close investigation. Such figures as I have seen of the trade output of gold in the next 10 or 20 years and the demand of gold vary enormously and I have not formed an opinion as to which school of thought is right. Certainly it is a matter which requires careful investigation; but I cannot express an opinion whether the future supplies of gold from the existing sources will be ample or whether new sources can be discovered; they are questions on which I have no accurate information.

6723. Supposing, as some witnesses have said, that there is really a redundancy of gold in the world, then the fact that India adopts a gold standard and a gold currency and so takes off the surplus of monetary gold available, would have a beneficial effect, because it would probably tend to stabilise the purchasing power of gold?—Yes.

6724. But if the other view were correct, viz., that the future production of gold will not keep pace with the economic development, and consequently that there will follow an appreciation of the price of gold which connotes falling prices, what effect, in your view, will that have upon the internal economy of India?—Well, I am of opinion that stability of prices in India is of primary importance. Prices are at present higher than the country has been accustomed to in previous generations and a moderate decrease would, I think, be beneficial. But if prices fall very heavily, then you upset all relations between debtor and creditor with what may be very serious results.

6725. And you impede trade because falling prices always impede trade?—Impede trade to a certain extent. I believe there have been periods of fall in prices when though profits have not been on a large scale yet trade has expanded and relations have not been unsatisfactory; but that again is a question which I am not very fully informed of.

6726. Then with reference to your statement in paragraph 16, where you deal with the measures for the safeguarding of Indian industries on the analogy of the English and Australian Acts for the Safeguarding of Industries, would you agree that the Safeguarding of Industries Acts in Great Britain and Australia were primarily introduced so as to counter-balance any advantage that may arise to a country with a depreciating currency, an advantage which arises from the lag in adjustment of internal and external prices?—I think so; I think it is perfectly correct.

6727. Now, to safeguard India in that respect, if the exchange were fixed at any point, so soon as the lag adjusted itself in India, any need of safeguarding would disappear?—Certainly, it should disappear.

6728. And therefore this Act would really, if it is to be applied for that particular purpose, have to go out of action as soon as the adjustment has taken place?—Yes; it should be a temporary measure.

6729. Entirely a temporary measure?—Yes.

6730. (*Sir Reginald Mant.*) Mr. Lawrence, we have received a good deal of evidence here in favour of reducing the value of the rupee to 1s. 4d. You give in your memorandum a number of reasons why that view is held. Would it be correct to say that it is mainly due to the belief that the lower exchange would be advantageous to the cotton mill industry which is the main industry in Bombay?—Not only the cotton mill industry but I think all exporting firms hold that view, that it would be advantageous to them.

6731. It is from the point of view of export then?—The cotton mills and exporters, those are the two sets of local industrialists who are the principal exponents of this view, I think.

6732. Exporters of cotton goods or all exporters?—No, exporters of wheat, pulses, oilseeds, all exporters in short.

6733. Turning to the cotton mill industry I gather from your memorandum that you do not consider that a reduction in the rate of exchange would be so beneficial as is generally believed. You point out that the raw cotton constitutes 60 per cent. of the cost to the mills and that 7 per cent. is incurred on imported goods, so it is only in respect of the remaining 33 per cent. that there would be a temporary reduction in cost from depreciation of the rupee?—Yes.

6734. But you also mention the general belief that with a lower rupee the cultivator would have a larger purchasing power?—Yes.

6735. You instance the grower of cotton and you point out that he would get a larger number of rupees, the value of which would be to some extent reduced by the increased cost of labour?—True.

6736. Would not the whole of this profit, the whole of these increased receipts be counterbalanced by the general rise in prices as soon as they had adjusted themselves to the new rate and would he in the end be any better off than before?—Well, opinions differ on the point. I think it is possible there might be some small percentage of advantage in his favour; but I have pointed out that this cotton cultivator only represents 5 per cent. of the cultivators of India.

6737. And as regards the remaining 95 per cent. do you think they would derive any permanent benefit from the lower exchange value of the rupee?—Researches are somewhat at variance one with another but I think that there is a considerable body of opinion that they would receive no advantage. With cotton, of course, you put other commercial classes, jute growers and growers of other fibres and so forth. Taking all those who sell commercial products apart and those that sell food-grains the percentage of the whole class would be about 15 per cent. to 85 per cent.

6738. I gather then that on the whole you are of opinion that the belief that the cotton mill industry would be benefited by depreciation of the rupee is to a great extent ill-founded?—Yes.

6739. (*Sir Purshotamdas Thakurdas.*) You think Mr. Lawrence that the adjustment of prices after the disturbance of the ratio from 1s. 4d. to 1s. 6d. is now complete?—The adjustment in prices?

6740. Yes; owing to the appreciation of the rupee there has been a disturbance as you say and that disturbance has to adjust itself. Do you think the adjustment is complete now or there is still mal-adjustment in the level due to the disturbance of the ratio?—I do not think I can answer that. I do not know.

6741. May I refer you to paragraph 10 of your statement where you say a rising rupee encourages imports and a falling rupee encourages exports until wages have been adjusted to the new level of prices. May I ask you if you think that the new level has been formed?—That is in regard to the rising rupee and in regard to the cotton mills?

6742. Generally, the adjustment of everything which is likely to be disturbed by the disturbance in the ratio?—No, in the matter of wages I think certainly there has been no adjustment during the period the rupee has gone from 1s. 4d. to 1s. 6d. That is only one year and a month or two.

6743. Therefore there is still some mal-adjustment left?—In wages certainly. I thought you spoke of prices.

6744. And to that exent any change in the ratio from 1s. 6d. to another would not be a complete disturbance of an adjustment which is not complete?—No, you may say that.

6745. May I refer you to the next paragraph "During the period of transition merchants and other middlemen make larger profits at the expense of producers or consumers." You think we are in the period of transition just now or out of the period of transition?—There are a great many factors to be considered in regard to the profits that merchants and middlemen make, but I think that this particular factor has not yet been adjusted.

6746. This the second factor, this also has not been adjusted; and do you think middlemen still continue to make profits?—That is the tendency if it is not uprooted by other more violent factors.

6747. But then, as to the tendency that you refer to in paragraph 11 (the first part) "During the period of transition . . . merchants and other middlemen make larger profits at the expense of the producer or the consumer"; at the moment do you think that that period of transition still continues?—I think so, yes.

6748. In paragraph 13 again you say that it is difficult to support the propaganda in India in favour of a depreciated rupee. You refer to the strenuous efforts which are being made in Italy and France to raise the exchanges. Of course, I am sure it is quite clear that France and Italy are trying to go back to their pre-war ratio. In the case of India, what you call propaganda and which you say is difficult to support, the people only ask for a reversion to the pre-war ratio instead of a rise from it. In the case both of France and Italy and of India the idea is to get back to the pre-war ratio and no change from the pre-war ratio. To that extent it is a common theory underlying all three?—Well, I am not quite prepared to accept that. It depends on over what period you take your view. The rupee has been up and down at various times so that people seem to advocate a depreciating rupee without fixing any point to which it should fall. In 1894, there were people at the time the Mints were closed advocating that the rupee should go down below 1s. 3d. So my remark there is of very general application. When you have got the rupee down to 1s. 4d. there will still be advocates who will wish it to go down to one shilling or sixpence or a penny.

6749. Have you heard anybody during the past few months suggest a change from 1s. 4d. downwards?—I have never discussed that.

6750. But have you heard lately, anybody advocating a change to under 1s. 4d.?—I think it would be the logical result of their argument. I do not say they put it forward in that form.

6751. Well, on the other side there are those who say that the 2 shilling rate which is on the statute may be the aim of the Government of India. I am not talking of such logical arguments. I am talking of actual facts as people have put forward their views. Have you heard anybody advocate a decline to under 1s. 4d.?—I am afraid I have not discussed this point.

6752. No, but you referred to the propaganda in India and I thought that perhaps you had discussed with somebody?—I refer to what I have seen in the papers.

6753. Have you seen anything in the papers advocating a rate under 1s. 4d.?—I was reading a memorandum or letter by Mr. J. A. Wadia yesterday advocating 1s. 4d. The result of what he was advocating would be to bring the rupee down below one shilling. He wants to open the mints to silver and introduce a silver standard.

6754. Did you read his written statement before tho Commission, is that what you have in mind?—I read something in the paper, I do not remember what it was.

6755. Now in paragraph 15 you say "When the high rupee is stable the costs will fall and the industry will compete in a fair field; in the interval the industry has a claim to protection." You have told us that wages part of the cost of an industry has not yet adjusted itself. Therefore, the industry has a claim to protection as far as this mal-adjustment in wages is eoncerned?—Yes.

6756. Do you think that until the adjustment is complete the Government of India ought to recognise the claim of the cotton industry to protection to that extent?—I am afraid I am not entitled to express an opinion on that, even privately.

6757. I only wanted to point that out, I am asking because you have made a statement in your memorandum; if you do not want to follow it up I am the last person to press it any further. I wish just to ask one question, regarding paragraph 25 (*b*), Mr. Lawrence, at the end of your written statement. You say there "To conclude the arguments above stated may be summarised to indicate the rate of 1s. 8d. would be probably possible." Do you mean in the distant future or do you mean for consideration at this enquiry?—I think that that might be the result if the United States set free their enormous holding of gold. I believe it is 600 million sterling. There is some talk of setting some of that free and that would lead to an inflation of prices in the United States; that would certainly react on prices in the United Kingdom and have a further reaction here and probably in the next few years, perhaps, drive up the rupee to a higher rate.

6758. You do not think that this question of stabilising at 1s. 8d. is one which ought to be taken into consideration by this Commission?—No; I merely attempt to estimate the economic factors which are under eonsideration in the world's market; that is all.

6759. May I ask you whether the United Kingdom is likely to raise their ratio of gold as a lever for control of prices? When the United States let the gold out and if the prices go up as you say both in England and out here, do you think that the United Kingdom is likely to change their ratio in order to control their prices?—I cannot foretell the policy in tho United Kingdom.

6760. They made strenuous efforts to retain their pre-war ratio of gold and got to it too?—Yes.

6761. India is the only country in the world where the pre-war ratio has been altered; we have not heard of any other country which has trifled with its pre-war ratio?—There are many other countries in which the pre-war ratio is not yet existing.

6762. (*Sir Purshotamdas Thakurdas.*) Because it is impossible for them to get it; but they are very anxious to get it; no country has been anxious to disturb pre-war ratio. Thanks very much: I am much obliged.

6763. (*Professor Coyajee.*) Only one question, if I may, arising out of Sir Purshotamdas Thakurdas' last question to you: in the United Kingdom they have got a very powerful machine for controlling prices, namely, the discount rate, and that financial weapon we in India possess to a very slight extent; and consequently, perhaps, we might have to make more use of the exchange method of controlling prices?—Yes.

6764. (*Chairman.*) Is there anything, Mr. Lawrence, which you would like to add at all or anything which we have failed to understand as well as we might?—No, I do not think so.

6765. (*Chairman.*) The Commission is very much obliged to you for your very full and kind assistance this afternoon.

(*The witness withdrew.*)

AT 1, COUNCIL HOUSE STREET, CALCUTTA.

EIGHTEENTH DAY.

Monday, December 21st, 1925.

PRESENT:

THE RIGHT HON. EDWARD HILTON YOUNG, P.C., D.S.O., D.S.C., M.P. (*Chairman*).

Sir RAJENDRANATH MOOKERJEE, K.C.I.E., K.C.V.O.
Sir NORCOT HASTINGS YEELES WARREN, K.C.I.E.
Sir REGINALD MANT, K.C.I.E., C.S.I.
Sir MANECKJI BYRAMJI DADABHOY, K.C.I.E.
Sir ALEXANDER ROBERTSON MURRAY, C.B.E.

Sir PURSHOTAMDAS THAKURDAS, C.I.E., M.B.E., M.L.A.
Professor JAHANGIR COOVERJEE COYAJEE.
Mr. WILLIAM EDWARD PRESTON.

Mr. G. H. BAXTER, } (*Secretaries*).
Mr. A. AYANGAR, }

Dr. PROMATHANATH BANERJEA, called and examined.

6766. (*Chairman.*) Dr. Promathanath Banerjea, you are Minto Professor of Economics in the Calcutta University?—Yes.

6767. You have been kind enough to come to assist us to-day, and you have also provided us with a very full memorandum* setting out your views upon the matter referred to us. I will, if I may, ask you a few elucidatory questions. In paragraph 2 you say:—"It should be remembered in this connection that there is not only no conflict between stability in internal prices and stability in foreign exchanges, but that the two are, to a considerable extent, closely inter-related." I gather it would be your view that, if exchange is automatically stabilised in gold and

* Appendix No. 33.

gold value for internal currency, internal gold prices must adjust themselves to world gold prices?—Is the point how far stability in internal price and stability of foreign exchanges are inter-related?

6768. I will just repeat my question. If exchange is automatically stabilised on a gold basis, then internal gold prices must adjust themselves to world gold prices?—Yes.

6769. You do not get rid, of course, of fluctuations in prices due to fluctuations in the purchasing power of gold, but you get rid of other causes of instability?—Yes.

6770. In paragraph 3 you refer to articles which are in the nature of monopolies. What are the Indian monopolies?—It seems to me that jute is the only article which may be called a monopoly. Other articles may be regarded really as partial or conditional monopolies, not absolute.

6771. Therefore, articles with a special market, such as Indian tea, would involve a partially monopolistic market?—It has a large sale. It commands a large portion of the tea market but it can hardly be regarded as a monopoly.

6772. Both jute and Indian tea are subject in different degrees to competition from other articles, are they not?—Tea is subject to competition, but as regards jute, there are substitutes in some form or other.

6773. As you rightly say, there is some price at which the monopoly of any article tends to break down by the forcing of substitutes on to the market?—Yes.

6774. You quote from Professor Jevons that "the price in the world's markets of articles of export subject to competition does not respond to the rise of the Indian exchange, and the supply of these commodities from India may cease altogether, or can only be continued at a lower cost of production,—in other words, wages and profits must fall." I have not been able to verify the quotation, but is the word "and" correct, because one would rather expect there the word "or", wouldn't one? If wages fall adequately, then profits may be unaffected. If profits are reduced, then wages may not need to be reduced?—Either of the two will produce that effect. I am not absolutely sure, but I think it ought to be wages or profits or both.

6775. Wages, profits, or both?—Yes.

6776. But in so far as one of these two falls, then the other is relieved from the pressure leading to a fall, isn't it?—Yes.

6777. In the next paragraph you say: "A rising exchange, by reducing the rupee prices of imported commodities, places the locally produced goods at a disadvantage." I want to know how far you cast the net in that statement. Would you extend it so far as to include all locally produced goods or only some locally produced goods?—Those locally produced goods which compete with foreign products in the Indian market.

6778. Is it your opinion that a rising exchange has the effect of reducing the cost of living as a whole to the humbler classes?—If the locally produced goods find it difficult to compete with foreign goods, the imported goods, then wages will have to be reduced.

6779. Cost of living, I said?—I beg your pardon. As regards cost of living, it depends on the articles which enter into it. If the imported goods constitute a very large portion of the goods consumed, then of course it leads to a reduced cost of living, but, if on the other hand it does not enter to a very large extent into the cost of living, it does not produce much effect.

6780. What is your view in regard to the effect of a rising exchange upon articles which are produced and consumed in India, such as the grain and stuffs which form the food of the poorest classes?—The food of the poorest classes is wholly produced locally and there is no portion of it imported from abroad.

6781. What, in your opinion, is the effect of a rising exchange upon the cost of living on the poorest classes in that regard?—The poorest classes import cloth and a few utensils from abroad. But during the last two decades the Indian mills have been producing cloth for the poorer classes to a larger extent than before.

6782. They are subject to effective competition, are they not, from, for instance, the Japanese market?—Yes.

6783. So one would expect that they would be affected by a change in the price of the imports?—I was going to say, yes they would be. The price of the locally produced cloth would be affected by the competition of the foreign product and to that extent the poorest classes of the people would be affected by a rise in the value of imported goods.

6784. What is your opinion as to the effect on the price of cheap grains of a rising exchange?—A rising exchange would depress the exports and therefore the price of grain is likely to be less.

6785. You believe that there would be a general fall in all these commodities?—Yes.

6786. Can one summarise it possibly by saying that a rising exchange is a consequence of a contraction of the currency, unless there is a very great increase in the rapidity of circulation, which, it is not sound to suppose, necessarily means a general fall in prices?—Yes, a general fall in prices would be the result. But how far the different classes of the population would be affected by it, would be a more complex matter.

6787. In paragraph 6 you say: "The effects of a falling rupee are the reverse of those of a rising rupee. Exports are stimulated, while imports are checked. These effects are, however, temporary." Is it your opinion that these effects to which we are referring are temporary equally in both the case of a rising or a falling rupee?—Yes, in both cases they are temporary.

6788. I was not quite sure whether that was inclusive or exclusive?—Yes, in both cases they would be temporary.

6789. In paragraph 7 you say: "The effect of higher exchange on the country as a whole is adverse, so far as its foreign trade is concerned." A little higher up you say that "wages and profits are in the same relative position (i.e. after the adjustments no doubt) as they were before the transition commenced"?—Exactly.

6790. Why, as far as foreign trade is concerned, is the effect adverse if wages and profits are in the same relative position?—Well, if we suppose that the export trade of India is 300 crores in value and the import trade about 220 crores, then if we take the import as a whole India would lose by a higher exchange on the balance of the 8 crores.

6791. There is a sentence in the latter part of that paragraph which at first sight I don't quite follow. You say that "India's exports exceed her imports in value by a large annual sum, varying from 60 to 80 crores. Higher exchange thus means considerable loss on account of this trade balance." That I think requires some explanation. India no doubt requires fewer rupees for the excess, but then, on the other hand, the rupees have a greater purchasing power. Where, then, is the loss?—Yes, after the adjustments, of course, there is practically not much effect, but then during the period of transition this is felt.

6792. Then I have been a little misled perhaps by the initial words of the paragraph: "Let us now consider the permanent effects of higher exchange." I understand you are of opinion that, adopting the ordinary analysis, this effect is a temporary disturbance during the period of adjustment?—But as I said in the previous paragraph, although the effect is temporary it generally takes a long time. The period of transition is not necessarily very short.

6793. You then raise the question of the currency system, and I will proceed to a few questions on that subject, again to ascertain the strong points in your argument. You say, "the gold exchange standard has failed to satisfy the tests of a sound system." Are you referring here to Indian experience?—Yes.

6794. What would your reply be to the contention, which has been frequently put before the Commission, that India has never in the past had a sound gold exchange standard, so that Indian experience should not be looked upon as evidence against a sound gold exchange standard?—We have had no experience of what may be called a real gold exchange standard. But the gold exchange standard that has prevailed in India in the past has failed to satisfy the test of a sound currency system. In any case management would be inseparable from the system of a gold exchange standard, and of course I am not opposed to management in any shape or form, but my view is that management should be confined within as narrow limits as possible.

6795. What do you consider to be the principal particulars in which the pre-war exchange standard system in India failed to be a scientific exchange standard system?—In the first place it showed a tendency to a breakdown whenever there was any difficulty, anything approaching a crisis, as in the years 1907 and 1908. Then again the management of the reserve has in the past led to much trouble and suspicion in the minds of the public. Then there is the fixing of the exchange rate. People fear that the exchange rate is often manipulated in the interests of other people. Then also you have to purchase silver if you have to maintain a gold exchange standard, and the method adopted in purchasing silver in the past has not been beyond question. Only a few years ago, although the gold exchange standard was not then in operation, still the Government wanted to give effect to it, and the sale of reserve councils was condemned in many quarters.

6796. That was in 1920?—Yes.

6797. The view has been put before us that the breakdown of the system in 1920 was not due to the defect of the system itself but to a misuse of the system; in other words, the system would not have broken down then if the currency had been contracted in proportion to the amount of the reverse councils sold What is your opinion on that?—I have not thought over the matter, but it will certainly depend on the judgment of those who would be charged with the management.

6798. Generally, in that connection I am putting the case for the gold exchange standard just to see what your opinion about it is. The case for the gold exchange standard has been made in this way. If you accept the legal liability to buy and sell international currency against the internal currency at the gold points, then there is no possibility of management, interference, or manipulation of the currency by the currency authority. What is your opinion about that? Let me repeat the question: if there is a legal obligation on the part of the currency authority to buy and sell some form of international currency, whether it be foreign exchange or gold for export and so on at the upper and lower gold points, for the established ratio?—Even then there will be some management in order to maintain the ratio.

6799. Let me supplement the question in that respect thus: The case made for the gold exchange standard is that manipulation as regards the maintenance of the ratio can be avoided, and that it can be made automatic by establishing a definite ratio between the reserves against the internal currency and the value of internal currency in circulation; and, by the placing of that definite relation between the reserves and the volume of circulation upon a legal basis, you eliminate all possibility of manipulation?—Yes, manipulation would be avoided no doubt, but the reserves will have to be maintained and the size of the reserve, the securities which would be held as part of the reserve, will continue to give trouble.

6800. And all these would then become matters of statutory provision?—If everything is provided by statute, of course management will be confined within very narrow limits, but silver will have to be purchased, and the rate at which it will be purchased will be decided by the authorities charged with the duty.

6801. As long as the ratio was maintained, the circumstance of the purchase of silver could hardly be used as a medium for manipulating the currency for inflation or deflation?—That might lead to difficulty. The whole of the reserve might be eaten away if the price that has to be paid becomes high; and also if the price of gold as compared with the price of silver rises very high, there will be a disparity.

6802. If there is a sharp rise in the price of silver above the melting point of the rupee, you do not think it would affect the reserve, but it might mean that the rupee circulation would disappear into the melting pot and would have to be replaced by some other form. Is not that circumstance one which must affect any currency system which continues with the rupee in circulation?—If the rupee ceases to be legal tender, Government will not face that difficulty; if it is merely a token coin.

6803. Supposing the rupee was no longer legal tender, do you forsee any very great reduction in the actual number of rupees in active circulation? —Gradually the number of rupees in circulation will be less. It is very difficult to estimate what proportion of the rupee is in active circulation, that is to say, what proportion is not hoarded. But hoards would come out, and the rupee becomes a token coin.

6804. That is going a little far away from the question. Let us assume 150 crores as the number of rupees in active circulation. In your opinion, would that, by any proposals which you make for the abolition of the rupee as the standard coin, lead to any very large immediate reduction in the number of rupees in active circulation? I am not speaking of hoards?—Ultimately there will be less circulation?

6805. Supposing under these circumstances the price of silver rises above the melting point of the rupee, what is going to happen then?—If the rupee ceases to be legal tender there will be no harm in reducing the silver content of the rupee.

6806. Would it be any easier then than it is now? —It will be much easier: now the rupee is legal tender.

6807. Theoretically of course since we are taught that the rupee is a note on silver there is no reason why we should not reduce the bullion content of the rupee. What prevents us is the violent reaction which will be produced upon the sentiments of the uninstructed population?—Yes.

6808. Would the reaction be any less violent, even after the rupee had ceased to be legal tender, if it is still in wide circulation?—It ought to be less violent.

6809. We might hope that it would be less violent?—Yes.

6810. Let me summarise the questions as regards the case for the gold exchange standard which I have been putting to you by asking you whether, in your opinion, with these improvements in the structure of the system so as to make it a scientific standard, there would be any greater opportunity for the manipulation of such a standard than there is for the manipulation of a full gold standard with a gold currency, recognising that there must always be a note issue with the supplementary gold currency? —It seems to me that the possibilities of manipulation would be much fewer but the exact extent to which manipulation would be possible is more than can be prophesied just at present.

6811. It becomes then a matter upon which you do not express a definite opinion?—It is a very difficult matter. The objection to a scientific gold standard would be much less than to the gold exchange standard which existed before the War.

6812. At the end of your paragraph you say: "The gold exchange standard is regardod as the brand of subjection and inferiority," which I confess is a shaft which pierces my bosom, because have we not in England just adopted a standard which is in substance the gold exchange standard?—At the present moment.

6813. Yes, at the present moment?—If that be called a gold exchange standard I should have no objection to having it here in India; but certainly

portions of the present procedure are regarded as temporary, as leading up to a full gold standard and the prohibition in the export of gold has now been removed. So in England they are really returning to the real gold standard.

6814. Our currency is internally inconvertible?—Yes, but that is only temporary. It is not likely it will continue to be so for ever.

6815. Here again we get into questions of foresight upon which we can express no positive opinion?—The Treasury Committee recommend that for the time being it should not be convertible, but they don't say that it should not continue to be so always in future.

6816. Would you be surprised to learn that there is, I think, no opinion in England in favour of the return to internal convertibility, and that I do not think any practical men forsee such a return?—I accept your statement.

6817. It would not be a surprise to you to learn that?—Well, even if it is so, that would not make much difference because in England the people have become accumstomed to a system of currency which is not exactly the same in India. For instance, the use of cheques and other forms is more prevalent there than in India, and when the same habit grows in India a scientific gold exchange standard or international gold exchange standard may become possible.

6818. You have relieved me; you have enabled me to read the sentence about the gold exchange standard being a brand of subjection and inferiority to mean that the gold exchange standard may be regarded as the brand of experience?—But this view has been expressed by eminent writers of books on finance and currency, that the gold exchange standard is suitable only for subject nations.

6819. That was not the view of the Genoa Convention, was it?—No, it was not.

6820. The recommendations of the Genoa Convention may perhaps have done something to relieve this particular system from any brand of inferiority?—Yes.

6821. Now we come to the alternative standard. You dismiss the managed currency as unpractical, and, of course, we understand that it is in direct opposition to your view as to the desirability of a system with possibilities of manipulation in any form; and we come to the gold standard with a gold currency?—Yes, but I do not object to an international exchange standard provided all relations are on the same footing and the habit of international action becomes established.

6822. You look forward to that as an ultimate ideal?—Yes.

6823. When the nations of the world agree?—Yes.

6824. "An incidental advantage," you say in the third paragraph towards the bottom, "of the adoption of the gold standard will probably be that greater familiarity with gold coins will bring into use such quantities of gold as are now kept as a store of value in the shape of ornaments or lumps of the yellow metal." This is a most important consideration, and perhaps you could tell us from your experience upon what you base this opinion?—It seems to be psychological more than physical; when people become familiar with an article they do not want to hoard it; if they know they can get it at any moment there won't be the same motive for hoarding it as at present.

6825. The case one has to meet in support of this opinion is this, that from time immemorial the people of India have looked upon the possession of gold as one of the objects of acquiring wealth; that, as it has been put to us by one witness in evidence, it is impossible to saturate India with gold owing to domestic uses and this taste of the people for gold. If that be so, is it safe to assume that, in the course of even a generation or two, a greater familiarity with gold coins will content the populace and make them no longer desire to have gold when we are dealing with such an age-old habit?—The psychology of the matter is that people desire a thing which is not very common, which is rare. Onee a thing becomes common, people do not want to hoard it. And, secondly, when banking facilities increase in India the hoarding habit itself will diminish, and perhaps in the long run disappear.

6826. Then you are contemplating the putting of so much gold into circulation as to make it really a common object in the eyes of the people?—Yes; if they can get gold without much difficulty they will not show any propensity to hoard it.

6827. What is you view upon the lessen to be learnt from the experience of efforts to make gold circulate in India in the past, as, for instance, after the report of the Fowler Committee?—I am not in favour of taking active measures for the circulation of gold. Once gold is made available let people take advantage of it, but I am not in favour of making payments in gold from the Post Office and Treasury, because that again has a definite psychological consequence; when people find that a thing is being forced upon them they do not want it; they look upon it with suspicion.

6828. Do you or do you not consider that, as the result of the measures which you propose, a substantial amount of gold would pass into circulation?—A substantial amount would be in circulation, but I would not force gold into circulation.

6829. You do not consider that a probable consequence of the result of making gold available for circulation would only mean the rapid passage of gold into hoards, ornaments and other forms of supplementary use?—No, I do not apprehend that difficulty.

6830. "The adoption of the gold standard," you say in the next paragraph, "does not imply that gold coins must necessarily circulate very largely." I just want to put this to you to clinch the little difficulty which I have been feeling about your recent answers. If gold is to educate the people not to hoard according to your view, it must circulate substantially?—Substantially but not very largely.

6831. If gold circulates substantially then it is expensive. One cannot have it both ways. Either you must be prepared to foot the bill for teaching the people that gold is a common object, or, if you want to economise, then you won't get the benefits of this lesson?—I would take a middle course. I would not force gold into circulation. I would make it available and the result of that would be there would be some circulation of gold, but not necessarily a very large circulation, because the people of India are poor, and the masses would not be able to get any amount of gold; it would be mainly the middle classes that would be able to get it.

6832. Nevertheless we must put it in this way, must we not, that your lesson not to hoard must be expensive precisely in proportion to its efficiency, since its efficiency depends upon the amount of gold in circulation?—Well, yes. On the one hand, when people get gold whenever they want it they will not requiro to hoard it. On the other, some amount of gold will be needed in order to familiarise the people with this metal; so some amount of gold will be required, but I do not think it will be a very large amount.

6833. Now let us look and see what amount of gold will be required. Have you been able to form any estimate of that?—No; I have not been able to do so.

6834. Nevertheless that is a very material question?—It is a material question, but estimates are bound to he very rough, and I have not found it possible to arrive at any exact estimate.

6835. The feasibility of your proposal depends, I suppose, (a) upon your being able to get enough gold to carry it out, and (b) upon the expense involved?—Yes.

6836. Therefore a judgment as to whether it is feasible or not must depend upon the formation of an estimate as to what amount of gold is likely to be required?—Yes. Broadly speaking, I may say that it is not impossible to obtain a figure of the amount of gold that will be required for the purpose.

6837. How can one tell that until one knows how much gold is going to be required? Supposing it was

500 millions sterling?—That will have to be carefully worked out; but my own estimate (I say this with a great deal of diffidence, because I do not think I have the proper materials to form this estimate) is that it will be something like 80 to 100 crores.

6838. Let us assume it at that. Every estimate, of course, must be formed with the utmost diffidence, but the most carefully calculated estimates put before us have been somewhat bigger. However, for the purposes of the present discussion, let us assume the larger of the figures you mention, namely, 100 crores?—I would regard that as a safe amount.

6839. Please tell us how, in your opinion, India would acquire this additional 100 crores of gold?—India has a large balance of trade annually, and if we look at the figures of the import of gold we find that it will not be at all difficult for India to get 25 crores worth of gold a year; so if the establishment of the gold currency takes five years, it will not be difficult to get something like 100 crores.

6840. India undoubtedly has a large balance of trade. A part of that balance is settled by the payment of the home charges?—Yes.

6841. Part by other invisible imports and part by the importation of gold bullion for ornaments and domestic uses?—Yes.

6842. So that, as a matter of fact, the whole of the balance is accounted for in one way or another. Where are we to find the credits on which India is to get the additional 100 crores of gold? I mean, what is the mechanism?—If you establish a gold mint at Bombay, and if there be a statutory provision to the effect that whenever gold is brought to the mint for coinage it will be allowed to be coined, then the public will take gold to the mint; the Government will not have to mint these coins of its own accord, to any very large extent; but it is the public who will bring their bullion to be coined.

6843. Why should the public be concerned to import more gold than they do at present? Supposing enough gold is imported for them to meet their domestic requirements, what measures are we to take for more gold to be imported, and against what credits?—A large portion of the gold that is imported at present will go to the mints for being coined.

6844. What is the basis of that opinion? We recognise, do we not, that in the last few years there has been a very great and exceptional import of gold owing, as we have been told, to the circumstance that gold is cheap in comparison with other commodities?—In the pre-war years of 1912-13 and 1913-14 the importations were very large too.

6845. There are indications which have been given to us by experts in the bullion market that the exceptional demand for gold has now been satisfied, and that for the future we should only expect a normal demand for gold for domestic purposes, ornaments and so forth. That being so, and having already agreed that the apparent balance of trade is really covered in one way or another by various forms of import, is not some further measure necessary in order to secure an increase in the import of gold to meet the new currency requirements?—Government will have to invest a small portion of the gold standard reserve in the coinage; but I do not think a very large amount will be needed.

6846. They could sell the securities in the gold standard reserve and take it in the form of gold?—Yes.

6847. That is one way?—Yes.

6848. If that goes into currency, then the reserve must be restored in some other form of asset, must it not?—Yes.

6849. Unless we assume that the reserve is now too big?—Once a gold standard is established very little reserve will be needed.

6850. I will ask you about that later. Would you disagree if it were put to you that, in some form or another, in order to supply the additional gold which will be required for the introduction of a full gold standard in the country, the Government of India will have to raise credits by borrowing at some gold centre in order to secure, either directly or indirectly by the rate of exchange, an additional import of gold?—Some borrowing may be necessary.

6851. And it is in the form of the interest upon those further credits that the expense of the scheme will come home to roost?—Yes.

6852. Now, let me put against your figure rather a bigger figure, which has been supported by evidence before the Commission, the figure that the requirements of India for a fresh supply of gold will amount to 100 millions sterling, not 100 crores of gold metal. You say in paragraph 11: "But in reality such absorption, if it takes place, will prove beneficial to the rest of the world, as it will help to lower the international price-level." That may be; but what we want to assure ourselves is that this will be beneficial to India, and in this connection I want to refer you to the possible effects which such an absorption by India will have upon general gold prices. What degree of disturbance do you think it would effect?—I do not expect that it will lead to much disturbance.

6853. Let me make my question quite clear, and ask you to assume that this process will be spread over a reasonable number of years, and that it will not occur all at once?—If it is spread over a number of years, I do not expect that there will be much disturbance. Of course, the absorption of some amount of gold by India will cause some shortage in gold in other countries. But that will not be so when it is distributed among the various countries; it will not affect very much the price-level in any particular country, and although there will be a slight lowering of the international price-level, that will be all to the good.

6854. Why will that be all to the good, a lowering of the world's gold prices? Does a fall in prices usually promote trade as a whole in the world?—It is a very complex matter; a rise in prices, of course, gives a stimulus to industries and industrial development, it is true; but, on the other hand, we must remember the fact that the price-level in the world at the present moment is much higher than the pre-war price-level. Taking the pre-war price-level, we have 160 as the index number for the United Kingdom, practically the same number in the United States, and in some of the other important gold-using countries. In India it was practically the same, 160. Now, this price-level seems to be abnormally high, and if there is a slight lowering there will not be much harm.

6855. Can one speak of a price-level as being abnormally high absolutely or abnormally low absolutely?—No; not absolutely; but compared to the pre-war figure.

6856. What is meant by abnormally high? It is higher no doubt than before, but is that of any significance after a period of adjustment during which wages, salaries and so forth have adjusted themselves to the new price-level?—No; it does not matter much; but even if there is a slight lowering of the price-level that would not cause any harm.

6857. In forming your opinion that this withdrawal of gold to India would not materially affect world prices, you have no doubt taken into consideration the probable future relation between the world supply of, and demand for, gold?—Unless there is any change in the present rate of production there will be no difficulty. Of course the price of gold like the price of any other commodity depends upon the production, that is the supply, and the use that is made of it. Now, of course, if the production of gold decreases, then there might be greater shortage, but if there is no appreciable decrease in the future production of gold then the slight amount of existing stock of gold which will be absorbed by India would not greatly affect the world's turnout.

6858. It is estimated by competent authorities, is it not, such as Professor Cassell and Mr. Joseph, that the world requires an annual increase of 3 per cent. in its total output of gold in order to keep pace with the increasing demand and to maintain prices stable?—Yes.

6859. In view of that circumstance and of the amount of the present production of gold, would you think it is safe to assume that an additional demand

of this magnitude for India's use might not produce an effect upon world gold prices which would have a very disturbing effect—I don't say upon the world at large—that we may disregard—but upon India itself?—I don't apprehend that. We don't want to disregard the world as a whole, but still, if the disturbance is distributed over the whole world, it will not really be felt. And if we consider the interests of India herself, of course, I don't think there will be any great harm done to her.

6860. I want to put to you a question which suggests itself to me now as the result of this discussion as being one which needs an answer. Supposing that the authorities at the world's gold centres, New York and London, were to take an opposite view, and to hold that such a demand would create a disturbance which would be adverse to the interests of the world at large and India amongst others; in view of the circumstance that, as we have agreed, to obtain that gold, India must raise foreign credits; contemplating it under those circumstances, if the authorities of these centres were reluctant to grant such credits, how could India enforce this policy?—That would be extremely selfish on the part of the United States and England. They keep hoards of gold and they would not allow any other nation to absorb a portion?

6861. Is it necessary to assume that it would be selfish? Might it not be that they differed from the view which you have taken that it would be in the interests of India? They might say: "No, our acquaintance with the conditions of the world's gold markets is such as leads us to believe that this would cause such a dislocation of prices as would do great harm to India and therefore we are not prepared to assist India to take a course which would be adverse to herself." The question is, under these circumstances, if credits are necessary, how could India make good the establishment of this policy?—In case there is such an obstructive attitude on the part of some nations, India would have to teach her people not to put gold into industrial uses or into ornaments but to keep it apart for the currency, the amount which she gets in the usual course of trade.

6862. India would then have to fall back upon what I have no doubt you would say is a slow process?—Yes, it will have to be slow.

6863. That process would be the process of the education of the Indian people up to making a better use of their gold than putting it into hoards?—Yes.

6864. Is that process now going on or is it not? Are the people of India being educated to the use of notes and to the more productive use of gold?—Yes; the use of notes is rapidly increasing.

6865. If the use of notes is rapidly increasing, might not that, in the course of time, produce these results which the gold currency would be intended to achieve, that is, the habituation of the people to confidence in some other form of storage of value than gold and the release of gold for investment?—Well, it is possible, as I said before, that such a time will come, but the people of India must have confidence in other nations and the habit of international action must be established. Otherwise, so long as India remains in the position which she occupies now, I think it would be desirable to have a gold standard so that she may think that in currency matters at least she is independent.

6866. What is the greater independence with a gold currency rather than with an exchange standard?—Until you have no international gold exchange standard, in the words of Sir Basil Blackett you have to tie yourself to the chariot wheel either of the Federal Reserve Board or of the Bank of England.

6867. Is that necessarily so with a perfected exchange standard? Supposing your exchange standard were the same as we have in England, where gold is freely given for export, not foreign exchange but gold bullion for export, does that not make you independent of any foreign currency?—Yes, but somebody must manage it; management cannot be altogether avoided. And so long as there is any management, there will be suspicion in the minds of the people.

6868. We get back then to the question we have already examined as to the relative degree of management in an exchange standard and an internally convertible standard with notes. In your next paragraph we come back to the ratio, and you say: "this brings us back to the question whether the exchange ratio is a natural one or an artificial one?" I want to ask you just what the words "natural" and "artificial" connote. What is a natural and what is an artificial ratio?—Well, Sir Basil Blackett said in one of his budget speeches that there is no such thing as a natural ratio. But a natural ratio may be regarded as one which is established as the consequence of normal circumstances—that is to say, without any manipulation—which establishes itself in the normal course of things, the usual trade relations and so forth, and not as a result of any manipulation.

6869. Let me put this to you. If one really gets to the bottom of it, that ratio alone can be said to be natural which is a ratio between the internal currency and gold or some external currency, such as sterling or international currency, to which internal prices have adjusted themselves?—The only natural ratio would be really the result of the comparative price levels in different countries; internal price level as compared with external price level. And as I said that would be established in the natural course of things and not by means of manipulation.

6870. The exchange rate is really only the measure of the relative value of the currency and, say, gold?—Yes.

6871. And when that measure is one which expresses the relation between the internal prices and world prices, then it is the natural ratio?—Yes.

6872. Any other ratio which does not express that relation between external and internal prices is an artificial ratio?—Yes.

6873. In your opinion have Indian internal prices adjusted themselves to the present ratio of round about 1s. 6d. or have they not?—I do not think they have adjusted themselves to the present ratio, not to the full extent.

6874. Admitting the difficulty of ascertaining evidence upon this proposition, to what evidence do you refer in support of that opinion?—I cannot refer you to any evidence, but my view is that the internal price level of India at the present moment as compared with the international price level is practically the same as it was in the year 1913-14. Now if that be so, the present rate of exchange seems to me to be high.

6875. I am afraid I do not quite follow that. The only direct evidence that I know of is such index numbers as we have in India, and, in particular, the Calcutta Index number?—The index number in India may be taken as 160. Practically it is the same in England. The figure given by the Board of Trade is somewhat less, and the figure given by the Economist is somewhat higher, but taking the mean it is about 160, and that is the internal price level in India.

6876. If the internal price levels in India are practically the same now as world prices, in England, say, and other gold standard countries, does that not show that they have adjusted themselves to the present rate?—In that case I do not see why the exchange should not have been the same as before the war, that is, 1s. 4d. If the internal prices were comparatively equal now and before the war, I do not see why the pre-war rate should not prevail, that is 1s. 4d.

6877. Let me put it this way: if there is a substantial equality indicating an adjustment, supposing we adopted in India any other rate than 1s. 4d. or 1s. 8d. does that not mean that there will have to be adjustments in Indian prices in order to accommodate them to the new rate?—Yes, there will have to be adjustments, but we should also consider whether the present rate is the result of factors which are

permanent or of factors which are only temporary. If we find that as a result of three or four successive good harvests, the present ratio has been reached, and if it is possible that we have one bad harvest in every three, if that be the normal condition in India, we should not expect to be able to maintain the ratio at 1s. 6d.

6878. Or, a critic might say, at any other rate, once there had been an adjustment to that new rate?—Yes.

6879. Such disturbing circumstances as those to which you refer would inflict an equal strain upon any rate that had been established and to which prices had adjusted themselves?—Yes, until prices have adjusted themselves, there would be disparities.

6880. The point is that the strain which the disturbing factors to which you refer, the bad year or we may say shifting world prices, would impose would fall with equal severity upon any established rate, the established rate being the rate to which Indian prices and Indian currency had adjusted themselves. We must here look to adjustments which are more or less permanent. The question is whether these adjustments which we have at the present moment are permanent or only temporary. In fact we may doubt whether there have been permanent adjustments or not. We have not quite exhausted that topic. Let me ask whether there is any other positive evidence to which we can refer to satisfy ourselves on this question whether there has or has not been an adjustment of Indian prices to the existing rate of 1s. 6d.?—There is another matter. The ratio of gold to silver in September last was, in New York 28·8, in London practically the same 28·7, while in India it was 29·6. Now so great a difference between the ratio in India and those in New York and London seems to point to the artificial value of the rupee. In the usual course of things, the ratio in India ought to approximate to the ratio in London and in New York. There ought not to be much difference.

6881. Do I understand that you are referring to the price of silver as the price of one commodity which in India has not yet adjusted itself to the 18d. rate?—Yes, the price of silver as compared to the price of gold is not the same in India as it is in London or in New York.

6882. It would no doubt require a greater acquaintance with the silver market at any rate than I can have to understand why there should be any temporary maladjustment of this commodity, but the circumstance that there is a single commodity (which is not, after all, a commodity of basic importance in considering the cost of living and so forth) that shows a temporary maladjustment here and there is not of very great significance in showing that there has not been a general adjustment?—A single commodity is not of very great importance that is perfectly true. But when we take into consideration the fact that silver, unlike other commodities, is one of the main articles which constitute the currencies of several countries, particularly in India, we cannot ignore it altogether.

6883. The only significance from the point of view of a disturbance of the rate of exchange would be if the price of silver were to rise above the melting point of the rupee. The price of silver is now 33d. and I think the melting point of the rupee at 1s. 6d. is 48d. That still provides a very ample margin, does it not?—It does provide a margin, but I was considering the comparative prices of silver and gold. So far as I am concerned, as I say in this memorandum, I am not quite certain that the present ratio has been worked up to. But I have grave doubts in my mind as to whether the present ratio may be regarded as a safe ratio which is maintainable.

6884. I am not sure that we have exhausted yet the circumstances upon which you base that opinion. Are there any others which you think support that opinion? We have considered the index numbers and the price of the commodity, silver?—The fact that during the last three or four years we have had exceptionally good harvests, which has led to an increased demand of the currency—as a rule we do not have such good harvests year after year in India.

6885. That perhaps rather returns to our discussion upon the question whether one rate after adjustment is more especially maintainable than any other, on which we already have had the advantage of ascertaining your views. Then you say: "If this ratio be adopted, measures may become necessary to check any downward tendency of the rate that may show itself. This can be secured by a cessation or restriction of the rupee coinage and reduction in the volume of the notes in circulation," and so on. How would you get to 1s. 4d., since we are now at 1s. 6d.?—The mere announcement that India is going to adopt the gold standard will reduce the value of gold.

6886. And will reduce the value of the rupee no doubt?—Yes.

6887. That will be because those who hear the announcement assume that the currency authority is going to take the measures necessary to reduce the rate to 1s. 4d. Supposing no measures were taken, do you think the rate would stay at 1s. 4d. after the initial fall owing to the operations of speculators and so on?—If my argument be correct that the present circumstances are not permanent but are merely temporary, then there will be no reason why the rate should not stand at 1s. 4d.

6888. That is assuming that the price levels in the country at the present time are really adjusted to the 1s. 4d. rate?—Yes.

6889. Then I understand it is your proposal to make the rupee convertible into the gold mohur as soon as possible. What exactly would be the nature of your proposals as regards that? How would you proceed practically?—I have not thought out the different stages but some time will elapse before a full convertibility is established. My view is this, that as soon as it is found practicable to convert silver into gold, it would be desirabe to do it.

6890. What would the effect of this announcement be upon the holders of rupee boards?—They will perhaps want to have their silver converted into gold.

6891. Would you undertake the obligation to do it at once and, if not, by what stages?—At once it will be impossible, because the gold standard reserve is invested wholly in securities at the present moment. We have 40 millions, but the whole of it is invested and if we want to have the whole of it converted into bullion, into gold, that would result in much loss. But I do not think a very large hoard of rupees will immediately come up for conversion. The amount of rupees that are in actual circulation will not be converted. In some parts of the country where banking facilities are non-existent and where people do not invest in any other securities, there of course are considerable hoards. For instance in Northern India, and to some extent in the United Provinces and the Punjab. But the extent of these hoards has not yet been estimated, and I do not know what is the actual extent of those hoards. In Bengal my impression is that there are very few hoards, so that if these stocks of rupees come back to the Government for conversion, it will not be a very difficult matter for Government to meet the obligation provided the Government gets sufficient time. In the course of two or three years it can be done. But immediately of course it would be very difficult to give effect to it, because the gold standard reserve is at present invested in securities, while if it had been held in gold, there would have been no difficulty at all.

6892. The whole scheme might then have been given effect to almost immediately, your difficulty being the realization of the securities in the gold standard reserve?—That is one difficulty. The scheme of convertibility,—that might have been given effect to immediately if the gold standard reserve had been held entirely in gold.

6893. Would the gold standard reserve be adequate for your purposes? You have got to contemplate the ultimate conversion of all the hoards of rupees?—As I said, I do not know if any estimate has ever been made of the hoards. I do not know personally what is the amount of the hoards.

6894. Let me give you the best estimate that has been supported before us in evidence, and that is an estimate of between 100 to 150 crores. Our gold standard reserve has only got 53 crores, that is 40 millions, or whatever figure we may take it at. If that be so, the gold standard reserve would not alone be adequate to undertake these liabilities?—Here again I speak with the greatest diffidence. My own estimate is that the hoards would not be more than 100 crores, probably considerably less. If the gold standard reserve had been held entirely in gold, 40 millions in gold or 53 crores if you like, would not have been at all inadequate to meet the whole demand.

6895. On the one side we have your estimate of 100 crores of final redemption, quite apart from any gold in circulation, and, on the other side, 53 crores in the gold standard reserve?—We are considering the amount of loss.

6896. There are 100 crores of rupees against which you have got to give gold, that it, 100 crores of gold. I beg your pardon. We are not considering the loss but the actual amount of gold required, which is quite a different proposition?—As I said a few minutes ago, in my opinion 100 crores is an over-estimate and 70 or 75 crores would be perhaps a safe figure. But even taking 100 crores as the figure of the hoard we do not expect the whole amount to be presented for conversion immediately; when people will continue to use rupees, I do not apprehend that the entire amount of the hoard will be presented for conversion.

6897. At any rate, you would limit that by undertaking only a limited obligation to give so much gold per annum?—Yes, that would be necessary in present circumstances but if the whole of the gold standard reserve had been held in gold it would not have been at all difficult to meet this obligation immediately, because if we take one half of it as being likely to require conversion 53 crores would have sufficed.

6898. There is another consideration, is there not in this connection, in estimating the amount, that is, when the rupee ceases to be legal tender, and is dethroned from its position as a standard coin, you can no longer hold silver in your reserves. The silver of the reserves must, therefore, be replacd with some other asset, with gold?—Yes.

6899. Which again is a factor to be considered in estimating the amount of gold to be required?—And that cannot be given effect to immediately; that will be a question of time.

6900. It also raises a further consideration. The expense of the scheme has got to be met, as I suppose you would agree, by the sale of the silver presented against gold and by the sale of the silver now in the Government reserves, something like 100 crores?—Yes, but if the whole of the silver is placed on the market immediately it will fetch very low prices and therefore it will have to be done gradually.

6901. What degree of gradualness would one have to adopt in order to prevent this throwing on the silver market of some 200 crores of silver from producing a slump in the silver market which would seriously affect the cost of the scheme?—I have not very carefully estimated the matter but I think 4 to 6 years will be required to give effect to the whole scheme of the gold standard.

6902. The amount of silver involved is, we are told, some three times the world's whole annual production of silver. Do you think this could be absorbed in 6 years without having a very serious effect upon the price of silver?—It will have some effect but not a very disastrous effect.

6903. Is it the experience of any other market that in 4 to 6 years you could add three times the whole supply of the world to that market without having a very serious effect on the price?—Distributed over 6 years that would mean considerable loss but the loss would not be of a disastrous character. If necessary it might be distributed over a longer period.

6904. There are one or two questions upon other matters in your memorandum that I would like to ask you. In paragraph 17 you express the opinion that the Government of India should continue to control the note issue, as I understand it, until the establishment of a State Bank in India. Could you expand that a little by telling us precisely what the conditions are for this State Bank, and in what respects they differ from the present constitution of the Imperial Bank?—Well, I am not satisfied with the Imperial Bank as it stands at present.

6905. What are the essential conditions in tho reconstruction of the Imperial Bank in order to make it such a State Bank as would meet your requirements?—The present Imperial Bank occupies a somewhat anomalous position. It may be said that the Bank of England is also in an anomalous position, but the history of the Bank of England is different from the history of the Imperial Bank. In England Government required a sum of money and the Bank of England advanced this money and the Bank began to act as the State Bank, performing many of the functions of such a Bank. In India on the other hand the Imperial Bank did not lend any money to Government, but gets the use of Government monies and the profit goes to the shareholders. It would be desirable to have a Bank like the Alliance Bank of Germany or some similar institution, or the constitution of the Imperial Bank may be so changed as to ensure the interests of the people of India being safeguarded.

6906. That is your object, as I understand it, but we have to make practical recommendations and to consider how that object can be attained as regards any possible changos in the constitution of the Bank. I thought perhaps you eould guide us on that point?—I am sorry I have not considered the details but I do not regard the present position of the Imperial Bank as an ideal one and I have always been of opinion that a State Bank proper should be established in India.

6907. I am a little afraid of being content with mere nomenclature in this matter. I feel that it is important for us to get at the root of the difference between the Bank you have in mind and the present constitution of the Imperial Bank. For instance, is there, in your opinion, not sufficient representation of tho Government in the control and management of the Bank at the present time?—Well, that is one point.

6908. And, if so, in what way would you increase it?—I have not thought over that; and not only of the Government but of the people. By people here in India we mean an incongruity. In other countries the Government represents the people; here in India the Government does not as yet wholly represent the people and that is the effect which has to be taken into consideration. But we expect that in the near future the State will be wholly representative of the people and in that case this difference between the State and the people will disappear. Then there is also this difficulty. Some shareholders are Indian, others are non-Indian, and the interests of the two communities may not always coincide. If there were a properly constituted State Bank this difficulty would be obviated.

6909. By what measures?—As I told you I have not thought out the details which would be necessary in order to convert the Imperial Bank into a State Bank.

6910. In your last paragraph but one you say "The seasonal demands for currency would be met to a larger extent in the future by the free minting system under the gold standard." It is not obvious to me at first sight how a free minting system can assist in any seasonal demands for currency, for this reason, that a free minting system means that the currency of the country is increased by the import of gold in the course of time, after the maturing of the

balance between the exports and the imports. Does that not come at a period after the read demand for the seasonal currency, which is before the actual export and before the conditions of the balance acting upon the exchange have resulted in the importation of gold; and is it not (just to show you the point of my question) the experience of other countries, such as pre-War England, that, as a matter of fact, the mere mechanism of the import and export of gold is perfectly useless to give any elasticity whatever to the currency of the country, and that we do require special provisions under that system just as much as under another to anticipate the gold movements?—That is correct. It is true that when agricultural products have to be purchased, the amounts have to be paid then and there; but for this purpose foreign capital can come in. Those who want to purchase goods in India will then bring in foreign capital in order to assist this need for the purchase of agricultural products.

6911. How does that foreign capital become currency in order to assist in financing the crops for export?—There is a constant flow in and out of goods and we can say that only at a particular moment there is an export of goods. Exports continue always and in view of crops being sold gold may be imported into India in order to pay for these agricultural products. That is quite possible and this gold would be minted.

6912. I understand that gold will be drawn in by the excess of exports when there is need for it. Is not that just the point, that the general movement of trade constantly in progress affects the import or export of gold without any relation whatever to the periodical seasonal fluctuations in the demand for seasonal currency at a precise time of the year to finance the internal movement of the crop before it is exported, so how can we get any help on this question of the provision of seasonal currency by adopting one basic system of currency rather than another?—I do not say that the whole of the difficulty will be obviated; I say that it will be obviated to some extent. If you have gold imported, this gold can be minted and that will pay for the agricultural produce. The whole of the difficulty will not be obviated entirely.

6913. As I understand from the second half of your paragraph, you do not think it will be possible without the same sort of provision that you have at present for meeting seasonal demands?—Yes; some need will always be felt; the existing method of creating additional currency will have to continue; I only say that a gold currency will meet the demand to a larger extent than now.

6914. That brings me to the end of the leading questions which I wanted to ask you. I wonder if you would be good enough to deal with any supplementary questions which my colleagues may have to ask you?—With pleasure.

6915. (*Sir Purshotamdas Thakurdas.*) In paragraph 10 of your statement you say: "In fact with a gold currency gold is likely to be used only to a very limited extent." If with a gold currency gold is likely to be used only to a very limited extent, why do you anticipate such a large amount of rupees to be tendered to the Treasury to be converted into gold?—Only a portion of the hoards would be tendered to the Treasury for conversion.

6916. You do not expect that what is actually used at present as currency will be tendered?—No; I think I made that clear.

6917. You only expect the rupees which are in hoards to be tendered for conversion into gold?—Yes; and not the whole extent of the hoards even; only a portion;

6918. Of course you have told us that you do not happen to have any figures of rupees in hoards?—No. But my rough guess (I shall not call it an estimate) is 70 or 80 crores.

6919. You mean rupees which are in hoards and which have not been converted into gold till now?—Yes.

6920. That in spite of the knowledge that the rupee is a token coin and is only of ten annas value?—Ten or eleven annas.

6921. Why do you think that people are sitting on such rupees in their hoards still?—The rupee being the legal tender coin it is kept as a store of value by people who expect to use it in future in places where there are very few facilities for investment or very few banks.

6922. In spite of being aware that practically six annas in the rupee is lost the people retain the rupee in hoards because it is a current coin?—Yes.

6923. If that is the mentality of the people who keep coins in their hoards despite the fact that they know there is a loss on it, is it not very likely that all those who have in their hoards gold bullion will tender the gold bullion to the mint to be converted into gold coin?—Yes.

6924. And in view of the large imports of gold in later years to which you yourself refer, is it not likely that much more gold may be tendered to be converted into coin at the mint, and that the currency may get a very good start with that?—Yes; I think I mentioned, in answer to a question of the President, that a portion of the gold which is now held in the shape of ornaments or in the shape of bullion may be presented to the mint for coining.

6925. My point is this: do you expect that it would be presented in very large quantities, in fact, as much as can be spared from the hoards will be thus presented for conversion into coin?—Yes, I believe so.

6926. Because if people hoard a coin, knowing that it is six annas less than its face value, they would certainly prefer to hoard a coin on which they know there will be no loss at all?—Exactly.

6927. You told us that according to your impression there is not much hoarding of the precious metal on the Bengal side?—Not much.

6928. I suppose that information of yours relates to the people?—Yes; let me explain my position; so far as the poorer classes are concerned there are not many hoards; they have a few silver ornaments, but so far as the middle classes are concerned there is some amount in the shape of ornaments, but not much in the shape of bullion.

6929. Ornaments which are necessary for purposes of their social and religious customs?—Yes.

6930. That could not be called a hoard as long as they are ornaments which are more or less necessary?—On the Bengal side there is not much hoarding.

6931. I was thinking more of the Zemindar and the richer classes and of the landed aristocracy. Do you think they have large hoards?—Not in Bengal; very little in Bengal. In the United Provinces and the Punjab there are some hoards.

6932. Would you say that if there are any impressions about the richer classes and the landed aristocracy in Bengal having precious metals in hoards, you are not disposed to support that impression?—I am not.

6933. May I ask if in the ordinary course of your duties you can be said to be in intimate touch with the rural and urban areas in Bengal?—I am in some sort of touch with the rural areas, and of course I live in the city of Calcutta.

6934. And you have opportunities of knowing the condition of the landed aristocracy in Bengal?—Not very intimately, but to some extent.

6935. I want to ask what you mean when you say that the Imperial Bank holds an anomalous position; excepting what you said to the Chairman, is there any other point that you had in your mind when you made that statement?—It seems to me that the Imperial Bank does not enjoy that measure of confidence in the minds of the people which it ought to.

6936. Regarding its solvency?—No.

6937. Then regarding what?—Regarding how far the interests of the people would be safeguarded by it, monetary and other interests.

6938. Monetary interests? How far are they safeguarded by the Imperial Bank at present?—Not at present; I would not entrust any large functions; that is what I said.

6939. So that if the present constitution of the Imperial Bank, whereby the Viceroy nominates six out of the twelve Governors, continues, you do not think

that would inspire enough confidence?—At the present moment, as I said, the Government of India is not representative of the people; when the Government of India becomes really representative of the people a greater amount of confidence will be established.

6940. And you want currency change to be made forthwith? You are not putting it off until the Government of India are representative of the people?—No; but I would still prefer a State Bank to the present system.

6941. Despite the fact that the Government of India is not likely to be representative of the people in the next year or few years, you prefer a State Bank to a bank where half the number of Governors are non-officials?—Yes.

6942. Would not that appear a little contradictory, if I may say so?—No. When I say that at present the Government of India is not representative of the people I merely mention the fact that this is one of the circumstances which leads to the want of confidence by the people; that will disappear.

6943. Perhaps the most important circumstance?—Yes.

6944. I am tackling the same subject; you say that the people have no confidence in the bank because the government the head of which nominates six out of the twelve Governors of the Bank does not happen to be responsible to the people; there is no prospect of the constitutional aspect changing within the next one, two or three years. You are now putting before us a scheme for a reform of the currency policy within the next one or two years?—Yes.

6945. And you still suggest that instead of having a bank where half the number of Governors are non-officials you prefer a bank where the complete control is in the State?—Yes; I am sure that in the near future the Government of India will become representative of the people.

6946. In the near future?—Yes.

6947. Then your recommendation is based on that? —In any case I would prefer a State Bank.

6948. May I take you step by step? I find it rather difficult to follow what you say. I want to understand exactly what you have in mind. You want a State Bank because you want the control to be with the State?—Yes.

6949. And you say that the State at present, in the constitutional stage at which the country is, is not responsible to the people?—In answer to that contention, I maintain that the Government will soon be representative of the people.

6950. Therefore, your recommendation for a State bank is based on this assumption on your part, that there will be a substantial measure of advance in political reform in the near future?—That is my belief.

6951. But, if that was not feasible you would certainly not make this recommendation? You would be disappointed in having made that recommendation? —Yes.

6952. (*Sir Norcot Warren.*) You said just now that the Imperial Bank of India got the Government balances free?—I say they have the use of the balances.

6953. Do we not do anything in return?—The Imperial Bank does perform certain functions for the State.

6954. Do we not do the whole of the treasury work for nothing?—It does perform some functions.

6955. Some functions?—Some important functions.

6956. All the functions of the treasury?—Yes.

6957. You cannot do that for nothing?—I agree that otherwise it would involve some expense.

6958. Some expense? I put it to you that it would involve double the expense that it does if we did not manage the treasury?—Possibly. I have not calculated the expense.

6959. Well, I have; I know it. Secondly at the instance of Government we have opened a hundred new branches very nearly; they will be completed on the day appointed *i.e.*, the 27th January next. Most of those branches will not pay for years?—In the beginning they will not pay.

6960. Is that not a loss?—That would be a loss to the Imperial Bank.

6961. To the shareholders?—Yes.

6962. You are talking as if the shareholders were getting everything and the Government getting nothing?—I did not exactly say that.

6963. I say the Government get 50 per cent. and the shareholders the other 50 per cent. If Government paid us interest for the work that we do for them it would be cheaper for the Bank than the present arrangement of getting their balances free?—It may be so.

6964. I am sure of it?—You are in a better position.

6965. Of course I am. Then again besides that, recently, when the presidency banks were in existence we charged anything we liked for remitting money all over the country. At the instance of government these charges are now so reduced that there is a great loss to the bank; but it is for the good of the country: is that not so?—Yes; but it does not dispose of my contention that a State Bank should be established instead of an Imperial Bank.

6966. But it is for the good of the country; is that not so?—Yes, but that does not dispose of my contention that a State Bank should be established instead of an Imperial Bank.

6967. You are very fond of talking of a State Bank. Do you know what a State Bank is?—Well, something like the Reichbank of Germany.

6968. Do you think this better that the Bank of England which is not a State Bank?—As I said before, the position of the Bank of England is different from the position of the Imperial Bank. In the first place, the history of the two banks is different—The Bank of England was started in a different manner from the Imperial Bank of India. In the second place, all the shareholders of the Bank of England and all the directors are Englishmen. Whereas in India the Directors are all Englishmen and the shareholders are not all Indians.

6969. Then you want them all Indians?—I don't say we want them. That is the position. It does not enjoy, to the full extent, the confidence of the people.

6970. You say the State bank that you propose won't enjoy the confidence of the people unless all the management are Indians.—Oh no. I don't go so far as to say that all the Directors should be Indians, but I say it would command greater confidence if there were more Indians.

6971. Do you think the Federal Banks in America better than the Reichbank or the Bank of England? —Possibly they are.

6972. Can you tell me the number of Bank failures in the United States during the last 25 years compared with the number of failures in England?—In some cases private management is better than State management, I admit.

6973. I am perfectly sure of that. I put it to you that the percentage of Bank failures in the United States during the last 25 years has been 15 to 1 compared to the failures in England.—It is quite possible that privately managed banks are better than State-managed banks.

6974. Then you are not quite so certain that a State bank is better?—No, but in the peculiar condition of India I would prefer a State bank.

6975. Oh yes, you might prefer one, but is it better? —I didn't say it is in every respect better but taking all the circumstances together, I would still favour a State Bank.

6976. (*Mr. Coyajee.*) Dr. Banerjea, would you agree with the view which is advanced by very high authority that the ideal of a pure gold exchange standard is as automatic as the gold standard?—"Pure gold exchange standard" is a term which I do not sufficiently understand. What do you mean by a pure gold exchange standard?

6977. Under the pure gold exchange standard, the following features of our present system would be eliminated. First of all, the fusion between the paper

currency reserve, the gold standard reserve, and the Government balances and their functions. Secondly, the investment into securities of those reserves would be much less. And thirdly, there would be statutory regulation as regards convertibility and as regards the points at which exchange would be sold and bought.—Yes, to my mind there can be a pure gold exchange standard when it is established on an international basis. Otherwise, unless you take the exchange on commodities with as little use of currency as possible, you cannot have a pure gold exchange standard. A pure gold exchange standard can be established only on an international basis.

6978. Have you studied the gold exchange standard system as applied in the Philippines?—I know it has been in existence for a number of years and it has proved a success there. But the Philippines are a very small country and the conditions in such a small country do not apply to the conditions of a large country like India.

6979. A proposal has been put forward before this Commission that it would be a safe thing if the gold standard was adopted very gradually in this way: the interests of the securities under the gold standard reserve and the paper currency reserve should be realised in gold annually and brought to India and this amount could accumulate for 15 or 20 years and thus automatically we should be in possession of a large gold reserve which would help to start the currency. Don't you think such a system would be a much safer one than the one adumbrated by others?—I would not have the system established for such a long period as 15 or 20 years.

6980. Yes, but don't you think the other systems are rather costly?—Yes, more costly than the present system no doubt, and the system advocated by you, but there are other advantages which are likely to accrue from it.

6981. Might we sum up the items of the cost of the other schemes of gold standard. As a first approximation perhaps you would agree that to the country the price of introducing the gold standard is equal to the price paid for the gold turned into currency *minus* the sale price of the rupees made redundant. That is one item. And then should we not add something for the potential depreciation of silver ornaments and hoards?—Yes.

6982. And thirdly is not there another item in the shape of the loss of interest on the securities sold?—Yes.

6983. Then in answer to Sir Purshotamdas, you observed that a substantial proportion of gold hoards would be tendered for coinage. But does not that imply that the rupees would be dedundant in fairly large quantities and would come back to Government seeking for exchange with gold? If a substantial proportion of hoards becomes coin, then a substantial proportion of rupees will become redundant and come back and naturally to be exchanged into gold by the treasury?—That portion which is held in hoards of course would, but not the rupees in circulation because the poorer people could not possibly afford the use of gold coins.

6984. (*Sir Purshotamdas Thakurdas.*) May I, Sir, just correct Mr. Coyajee with regard to the question which he referred to as coming from me. My question was as regards gold held in bullion form in hoards. It does not affect the rupees at all. I just wanted to mention it so that it may be on record. I think I said gold held in bullion form.

6985. (*Mr. Coyajee.*) If gold held in bullion form in hoards is offered for coinage and enters into currency then some of the rupees must become redundant?—Professor Coyajee's point is this, that the total volume of currency would be increased. As the gold portion of the currency would be increased, the silver portion must go out. There would be some little redundancy and some portion will perhaps go out but, as I say, that would not be a very material portion, because the masses of the people don't use gold; they cannot afford to use gold.

6986. True, but in that case much of the gold bullion change into currency must go back to the hoards because if the people won't use a good deal of gold currency then the gold bullion being coined much of it goes back to the hoards. Where else could it go?—Some portion of it would be stored away, perhaps, but some portion would remain in circulation.

6987. (*Mr. Preston.*) Doctor, the Chairman asked you a little while ago which of two rates you considered was the rate better suited to the needs of India, either the 1s. 6d. or the 1s. 4d., and you said that for many reasons the 1s. 6d. was the justified rate and your major reason was that you considered silver was under-valued and therefore that pointed to the fact in your mind that a better ratio was the 1s. 4d. That is correct?—Yes.

6988. As you are aware, India has always had an intense longing for the precious metals and those who have been engaged in the trade of the precious metals have always found one factor, that India has never been a buyer of both the yellow and the white metal at the same time. I think you will recognise that. In other words, that she does not buy gold and silver equally at the same time?—No, not equally at the same time.

6989. Now then, as a matter of preference she will always buy the yellow metal?—Yes.

6990. At the present time and for the last two years, gold has been abnormally cheap, therefore, she has been a very big buyer of gold and for that reason she has been a poor buyer relatively of silver. The result of that is that silver to-day in Bombay round about 70 odd pence, is below the exchange parity?—Is it below the exchange parity?

6991. Oh yes?—I am not quite sure of that.

6992. Well, silver is below the 1s. 6d. parity?—Yes, undoubtedly.

6993. Now, would that not cause you to alter your opinion about silver by reason of the fact that the people of India are buying gold for all they are worth because it is so cheap, would not that cause you to come to the conclusion that the 1s. 6d. parity is not out of joint?—That does not seem to me to be a very important consideration.

6994. But you looked upon the fact that silver was under-valued as being a major consideration to your mind and therefore pointed to the fact that the 1s. 4d. parity was for that particular reason the more suited to India?—What I pointed out to the President was that the comparative prices in India, England and America differed.

6995. That is true, naturally. But the Indian prices are different and the Indian prices would be due to the fact that India was not a keen buyer of the metal and therefore that very factor was reflected in the local price of silver in India?—But there ought not to be this great disparity between the price in England and in India over any length of time.

6996. Well would that not point to the fact that they were not desirous of acquiring the metal? Gold and silver are international commodities and the prices in different countries ought to approximate to each other?—For any considerable length of time there ought not to be any great difference in prices.

6997. America is a producing country. England to a certain extent is a clearing house and to a certain extent a consuming country. Assume the other consuming centres are operating; but one of the largest, India, is not for the simple reason that she does not want the white metal?—That may be a reason, but the fact that the disparity exists for any length of time proves that the conditions in India are different from the conditions in other countries so far as prices are concerned.

6998. Assuming that they stop buying gold and that they commence to buy silver, and silver went up to parity: would you then say that your opinion is changed and that therefore 1s. 6d. is a more normal parity that 1s. 4d., for the reasons which you have given to the Chairman?—That would be one condition which would lead me to think that the causes are not of a temporary character. That is my whole position,—that the present rate is the result of temporary conditions. One of the conditions is that we

have had a succession of good harvests in India,—and there are some people who maintain that the present ratio has been worked up by Government. As I say in my memorandum, in the absence of fuller materials at my disposal, I am not prepared to accept that view. But the fact that the ratio of gold to silver is different in India from that in New York and in London is one evidence at least of the temporary nature of the present conditions.

6999. Let me put this question to you. America and England are on silver parity, India is below. Therefore you say, because India is not on a parity with the other two, I am inclined to believe that really speaking 1s. 4d. is the correct ratio for India, that is your statement?—That does not strike me as a logical conclusion.

7000. Then let me put this question this way to you. England and America are on parity, and India goes up to England's and America's parity. Would you then say that 1s. 6d. was the correct ratio to adopt for this country?—I would then say that the conditions are not entirely temporary but are permanent.

7001. And would you consider 1s. 6d. as the correct ratio?—Yes. That would be one evidence of the fact that the conditions are not temporary.

7002. Might I go to another point. In paragraph 16 you say that the gold standard reserve should in future be employed in maintaining the ratio between the mohur and the rupee, and you say that the reserve should be held mainly in gold, but a small portion of it may be invested in the Treasury Bills of the Government of India?—If the gold standard has been fully established, there would be no need for it.

7003. Then in the meantime you really intend that an improved system should function until such period as you have in view comes along,—and I think in reply to Professor Coyajee you said that you considered 20 years was perhaps too long: what would be your idea?—Four to 6 years. Under very favourable conditions it may be in 4 years, under fairly good conditions it may be in 5 to 6 or 6 to 7 years.

7004. You think all these great changes will be brought about with the minimum of trouble in such short period?—I do not apprehend any very great trouble. Of course there would be disturbances here and there. You cannot move from one standard to another without causing some disturbances, but I do not apprehend any very great trouble.

7005. In any case you say that pending arrival at conditions suitable to bringing your system into operation, an improved gold exchange standard should function?—Well I do not know whether I should call it a gold exchange standard, that is a question of nomenclature, but where the ideal is a gold standard, we must take all steps for the definite object of reaching that ideal.

7006. (*Sir Alexander Murray.*) I just want to make one thing clear. In paragraph 3 you quote from Professor Jevons. Now that quotation there has reference mainly to the rise in exchange, not to the high exchange?—Yes, it is only the rise in exchange, that is made clear.

7007. You say, " the effects of a rising or a falling rupee are well understood. A rising rupee tends to discourage exports and encourage imports." You then go on in the next paragraph to the rise in exchange. At the close of that paragraph you say, " the effect of a *higher* exchange ": You mean the riso in exchange, not the high exchange?—Yes.

7008. Will you accept Professor Jevons' summing up in these words:—" It is to be hoped, however, that anyone who has carefully followed the reasoning of the foregoing pages will be convinced that once the rate of exchange has been raised as just described, and all the economic readjustments have come about, no permanent economic burden would be laid upon India thereby. Stated briefly, there would be fewer rupees in circulation, and each would buy more than it did before." Do you accept that as the summing up of the result of a high exchange?—Subject to this qualification that the transitional period is not necessarily very short and the temporary effects are not altogether negligible.

7009. Then in paragraph 7, where you deal with the permanent effects of a higher exchange, you say that " the rupee becomes an over-valued coin, and the general price level is lower." You do not mean " over-valued," you mean an appreciated coin, a coin with a greater purchasing power?—Yes.

7010. Then you make the statement that " a gold standard does not imply that gold coins must necessarily circulate very largely,"—as a matter of fact you are not in favour of gold coins circulating?—Not to a large extent.

7011. I see you quoted from Dr. Gregory. Now Dr. Gregory in his latest book says regarding the system now in existence in England:—" Under the new arrangements obtaining in this country, (that is, England), we possess a gold standard, but not a gold currency. In other words we have adopted that particular currency system which is known as the gold-exchange standard "?—What is the title of the book, is it " The Return to Gold "?

7012. Yes. You accept Dr. Gregory's definition of a gold exchange standard, and in view of your opinion that the circulation of gold coins in India is not advisable to any great extent, I suppose you will consider that we might be put on the same lines in India as they are in England?—But in England it seems to me from the Report of the Treasury Committee that the intention is to revert to the gold standard in its entirety.

7013. The Treasury Committee reported a long time ago?—Only a year ago.

7014. You mean the Committee appointed by the Treasury last year, in 1924. You gather from that that they purpose going back on to gold in circulation?—That seems to be the intention from reading their report.

7015. (*Chairman.*) The effect of the Report of that Committee was, was it not, to point out the steps recommended for the establishment of an exchange standard and that we might return to a gold circulation some day?—Possibly that is the effect.

7016. (*Sir Alexander Murray.*) In paragraph 13 of your statement, you say that " the relative price levels in India and other principal countries of the world are very nearly the same to-day as they were before the war." Is not that a reason for stabilizing on basis of price levels as far as possible where they are to-day in relation to the other gold-standard countries?—My argument is this. If the relative price levels be the same, why should the rate of exchange be different?

7017. You are working backwards: the point is, as the price levels are the same, is not the fact that they are the same, a good reason for stabilizing at the existing rates of exchange?—But that seems to point to the artificial nature of the ratio, because if in 1914 the price level in England was 100 and the price level in India also 100, and if in 1925 the price level in England is 160 and in India also 160, why should the ratio differ? Why should not the ratio in 1925 be the same as the ratio in 1914?

7018. But the adjustments have taken place, and the ratio is not the same. It has been suggested that Government ought to have stabilized exchange and fixed the ratio at 1s. 4d. in October, 1924, when exchange first touched 1s. 4d. gold. Would you accept that, that it should have been stabilized at that rate when it touched 1s. 4d. gold? In October, 1924, the relative price levels were, in United States of America, 152, in England, 172, in India, 181. Now would you or would you not have asked that we should have stabilized at 1s. 4d. gold in October, 1924, when the price levels in India were 181 as against 152 in the United States?—No.

7019. Then you state that one of the reasons why you think that circumstances are abnormal just now is that we have had three good monsoons running and therefore that is abnormal, but in the very second sentence in your statement you say that " the agricultural situation is quite fair," and you use that

as one of the arguments for stabilizing exchange?—Yes I am in favour of stabilization, the question is as to the rate.

7020. But you make a statement that, agricultural conditions in India are quite fair and the price levels in India and America are like, therefore we should stabilize?—We should stabilize.

7021. We have got all these conditions and that is the reason for stabilizing?—Yes.

7022. At 1s. 6d.?—That is just the point. The exact rate will have to be determined by permanent conditions when we should consider whether the present ratio is the result of permanent normal conditions or merely temporary and abnormal.

7023. But in reply to the Chairman you only pointed out two abnormal conditions at the present moment, one regarding the price of silver with which Mr. Preston has already dealt, and the other regarding the monsoon; but you yourself in the opening paragraph say that even after these monsoons agricultural conditions in India to-day are quite fair?—Quite fair, yes.

7024. (*Sir Rajendranath Mookerjee.*) If the agricultural conditions of the ryot are quite fair, why do you object to a rise in the exchange?—My point is this. If you do not adopt a ratio which is the result of normal and permanent factors you will not be able to maintain it. Suppose there is a bad harvest next year, how will you maintain the ratio?

7025. But take for instance Bengal; the cultivators here grow very little which is exported, except jute, they have not much to export?—Bengal exports jute and Assam exports tea; some tea is exported from Bengal also.

7026. Very well take those two. In jute, as you know being a Bengali, whatever profit is made the middleman takes it and not the agriculturist?—I would not go so far as that but the middleman intercepts a good portion.

7027. In tea it is the company and the company's shareholders who take the profit?—That is true.

7028. And if any commodities or foodstuffs rise in price, that rise reacts on prices of other commodities in Bengal at the same time?—Yes, the principle of substitution comes into force.

7029. I will explain further. Suppose there is a rise in the price of rice, then the price of vegetables will also rise; so have you ever calculated carefully the budget of a cultivator, whether by a rise in exchange he will lose or benefit?—It seems to me that those who have to export their goods, those whose goods are purchased by exporters, will suffer.

7030. But take the average. I know you have said that before. I am only taking the general condition of the people of Bengal?—Shall we consider the question from the standpoint of Bengal merely?

7031. You may answer about Bengal first; I will then come to India as a whole?—Well, growers of jute will certainly suffer by a rising exchange.

7032. But there are large classes who do not grow jute. I am asking you what you have gathered from your experience?—Well there also the principle of substitution comes into force. The value of rice is to some extent dependent on the value of wheat and other crops.

7033. I mean the average for everything. What I want to know is if you have carefully considered the budget of the Bengal cultivator as to whether he will be a loser or gainer by a rise in exchange on the whole?—So far as the Bengal agriculturist is concerned it will be very difficult to answer because if you omit jute cultivators you might asy that those who cultivate rice are gainers from a rising exchange.

7034. Very well, I will leave it there. In paragraph 2 you say "the gold exchange standard is regarded as a brand of subjection and inferiority." What exactly was in your mind? You have answered something to the President but I want a further explanation?—In various books written by eminent men you will find that phrase that the gold exchange standard is suitable only for inferior countries and for subject nations. That is not exactly my phrase but the phrase used by very eminent economists. It is also believed that when you tie yourself to the currency of another country you are in a position of inferiority and subjection; but that is with regard to the gold exchange standard as it existed before. I am not considering a pure gold exchange standard or an international gold exchange standard. Of course I am in favour of the international gold exchange standard if the practical difficulties could be removed.

7035. Now with reference to hoards of the population of India, over 70 per cent. are cultivators, and whatever they save is hoarded in a sense. They keep these hoards for emergencies to buy necessaries or against illness or something like that. Do you think that these silver hoards will come out with a rush to be converted into gold if the gold is issued, having regard to the fact that they will require now 1 rupee, now 8 annas and so on; and that they will not consider it convenient to keep gold but will prefer taking silver for the sake of meeting their necessities?—I entirely agree with you. In my opinion the whole of the hoards will never come up for conversion but a portion may.

7036. So there is no reasonable ground to fear that there will be a rush to convert silver into gold?—Some portion of the hoard will come out but not to a large extent.

7037. Then the Chairman told you that if gold standard and a gold currency were introduced, there is likely to be a protest raised against it. Do you think we can resonably apprehend such a thing?—Well, I personally don't.

7038. (*Sir Maneckji Dadabhoy.*) I understand, Dr. Banerjea, the conclusion you draw in the matter of the fixity of ratio is that our principal, our primary object should be its maintainability?—Its attainability and its maintainability.

7039. And you contend, as I understand you, that the present ratio is not the result of normal and permanent conditions, the present ratio of 1s. 6d.?—It does not seem to be so.

7040. Why do you say it does not seem to be so; because I understand it has not been sufficiently long in existence to give to it the elements or normality of permanency, is that your reason?—Yes.

7041. Your point is that though stabilsation has its value, after all it is a secondary matter because once you get a sound currency system stabilisation will proceed forward, is that your contention?—Because when the rupee becomes legal tender it will not be found necessary for Government to convert it.

7042. I thought there was some confusion in your mind when my friend Sir Alexander Murray referred to Dr. Gregory's dictum. I understand that you only referred to Dr. Gregory's dictum to prove that the value of gold is not likely to fluctuate widely within short periods and the fluctuations in the ratio will be less if a gold standard is adopted?—Yes, over a long time it does fluctuate but within short periods of time the value of gold does not fluctuate.

7043. So the mere fact of the ratio becomes a secondary object. Once you have a gold standard and a gold currency, the ratio will look after itself, and that is the aim we should have for a stable currency?—Mr. Secretary, in this connection I should like you to make a correction in the printed memorandum in paragraph 9. "From the standpoint of stability of commodity prices the gold standard is not an *impossible* standard." It should be an *invariable* standard, not an impossible standard.

7044. My next question is if we come to the conclusion that we should have a lower ratio the factor of adjustment is not one of insuperable difficulty?—Yes.

7045. The adjustment will take its natural course in time?—Yes.

7046. Now let me draw your attention to paragraph 10 where speaking of the gold standard you say that gold as currency is uneconomical, and then in answer to the Chairman you said that you would not like to force gold coins into circulation. Am I to understand that you advocate a gold standard without a gold currency?—No, I do not advocate

that; but I do not like the system which was adopted by Government in 1899 or 1900 when payments were made in gold coins from the Post Office and the Treasury.

7047. But if you introduce the gold standard into a country like India without a gold currency, without a visible gold currency, is it not likely to be distrusted, your whole system?—No, I should like to have a natural system. If the people want gold let them have it, but we won't force it on them. The whole point is in the words "force it into circulation."

7048. Then you would not force it?—If you show your eagerness to part with gold coins people will hesitate to accept it. That is a psychological fact. We part with things which we do not want to keep ourselves.

7049. But you see, Dr. Banerjea, there is a good deal of bullion reserved in the hoards just like silver rupees. When the gold standard is introduced with the establishment of a mint in the country bullion will be brought out for the purpose of coinage into gold coins, whether it be sovereigns if we adopt the sovereign as a gold coin or gold mohurs or any other coin of a smaller or bigger denomination. Those gold coins once they are brought for coinage must circulate to a certain extent?—Yes, I would not impede the natural course of circulation.

7050. In this connection I would draw your attention to paragraph 51 of the report of the Fowler Committee, in which they say this: "We are of opinion that the habit of hoarding does not present such practical difficulties as to justify a permanent refusal to allow India to possess the normal accompaniment of a gold standard, namely, a gold currency." Do you agree with this?—I entirely agree with that view, only I would not force gold into circulation. I think the steps which were taken in 1900 were inadvisable.

7051. Only one more question on this aspect: both Sir Purshotamdas Thakurdas and Sir Norcot Warren have exhaustively examined you in connection with your remarks about the Imperial Bank, but I want to know one thing: when you speak about the management of the Imperial Bank, I presume you do not speak from any personal knowledge?—No.

7052. And all the remarks you have made to-day have been based on certain assumptions?—Yes.

7053. You do not know the exact working of the Imperial Bank?—No. I have no personal knowledge, and my remarks come from the knowledge that any outsider can possess.

7054. You cannot at the same time state that the Imperial Bank could not be brought to that state of perfection which is your ideal and in which it would be safe to leave the management of the note issue to it?—I would not aver that.

7055. (*Sir Reginald Mant.*) Dr. Banerjea, you recommend a reversion to the 1s. 4d. ratio on the ground that it will be difficult to maintain the 1s. 6d. ratio?—Yes.

7056. Do you hold as a general proposition the view that has been put before us by some witnesses that it is easier to maintain exchange at a lower rate than at a higher rate?—My view is that it is easy to maintain exchange at the normal rate; and the normal rate is one which is the result of more or less permanent conditions. If you fix the ratio at 1s. 6d. Government will find great difficulty in future in maintaining it. If there be a bad harvest a great deal of difficulty will be felt.

7057. If we were to assume that prices and the volume of currency had been adjusted to a particular rate, be it 1s. 4d. or 1s. 6d., do you hold the view that it would be easier to maintain it at 1s. 4d. than at 1s. 6d.?—Of course, it would be easier.

7058. Apart from the question as to which is the normal rate, I am not going into that?—It will be easier.

7059. Can you explain why? That is what I have not been able to understand. Let us put it into figures. Let us assume that the volume of currency, rupees and notes required with the rupee at 1s. 6d. is 400 crores. Now to adjust the volume of currency to the 1s. 4d. rate you would require a circulation of 450 crores, would you not?—Yes.

7060. Now, supposing there was a bad monsoon and you have to contract your currency by, say, even 10 per cent. at the 1s. 4d. rate, you would have to withdraw 45 crores of rupees from circulation and convert them into gold or international currency. With the 1s. 6d. rate you would have to withdraw 10 per cent. or 40 crores to be converted into gold or international currency. In the latter case the 40 crores would purchase just as much gold or international currency as the 45 crores in the other case. So can you explain why it is easier to contract in the one case than in the other?—I have not exactly followed your question; the question is to maintain the convertibility of the rupee; that is the question; as the silver content of the rupee is only 11 annas or something like it——

7061. Let us make one more assumption, and that is, that in either case we have adequate sterling reserves so that it would not be necessary to melt down rupees and sell them for silver. We do not want to bring in that complication?—My point is this: I do not say that it is easier to maintain the exchange at a lower level than at a higher level.

7062. If you do not say that?—I never said that. I said that the figure should be such as is normal, that is, the result of permanent conditions.

7063. You do not hold that it is easier to maintain exchange at a lower than at a higher level?—Not under all conditions; but in India under present conditions——

7064. Let me finish my question: leaving aside the questions as to which is the normal rate?—I would not discuss it at all; I do not hold that it is easier to maintain exchange at a lower level than at a higher level.

7065. (*Chairman.*) I think Sir Reginald Mant's questions are based on the passage in your memorandum which says, "the Government will find considerable difficulty in maintaining the 1s. 6d. rate. It seems desirable, therefore, to revert to the old ratio, namely, 1s. 4d. to the rupee"?—Yes; but the whole of it is based on the view that the present situation is not permanent. If you will kindly read paragraph 12, you will find I say there: "This brings us to the question whether the existing ratio is a natural or an artificial one. The view seems to prevail in certain quarters that the present rate has been worked up to by the Government. In the absence of fuller information than I possess just now I am unable to say whether this view is correct or not. But I am convinced that the conditions which are responsible for the existing rate are not of a permanent character, and I fully endorse the view of Sir James Wilson."

7066. (*Sir Reginald Mant.*) I understand your position perfectly there. I only want to clear up whether you adhere to the view that has been put before us by other witnesses that it is easier, as a general proposition, to maintain exchange at a lower rate than at a higher rate. I understand you do not?—Not as a general proposition, but under certain conditions.

7067. (*Chairman.*) We are very much obliged to you for your very full assistance this morning.

(*The witness withdrew.*)

Mr. B. VENKATAPATIRAJU, C.I.E., M.L.A., called and examined.

7068. (*Chairman.*) Mr. Venkatapatiraju, you are a Companion of the Order of the Indian Empire?—Yes.

7069. And a Member of the Legislative Assembly?—Yes.

7070. You have been kind enough to come to help us to-day on the matters referred to us, and you have been good enough to furnish us with a memorandum* which sets forth your views upon the subject of our reference. I see on the first page that you were responsible for the motion in the Legislative Assembly which may have had some connection with the genesis of this Commission?—By ballot I had the luck and so I moved the resolution.

7071. I will, if I may, put a few questions to you. Your memorandum is so full that it will relieve me from the necessity of troubling you at any great length. In the first place, what are your reasons for preferring the gold standard which you set out, with gold in circulation, to a scientific gold exchange standard?—My first objection, Sir, to the gold exchange standard is that it has neither logical nor ethical nor economic basis. I say not logical for the reason that the obligation created is not mutual or reciprocal.

7072. The obligation between whom?—Between the State and the people. I say it is not ethical because, during the pendency of the contract, one party has no right to increase the measure or unit of value.

7073. What is the contract to which you are referring?—The State entering into various obligations; for instance, when entering into the permanent settlement with Zamindars it was agreed that they should receive a certain fixed amount for ever in rupees. Now, when you increase the value of the rupee, you are taking a larger amount than you are entitled to.

7074. If I may interrupt just for one moment, are you proceeding upon the basis of the relations between the State and the taxpayer being regulated by contract?—No. I am not speaking about the general taxpayer with reference to the relationship between the State and the people. With reference to the permanent zamindari holders and the ryotwari holders, relationship does not stand on the ordinary footing; because within 30 years the ryot is not bound to pay more than a fixed amount. That contract is fixed for a period of 30 years, and you are entitled to take, say, Rs. 10 per acre. If instead of taking 10 you take Rs. 12 it is not reasonable.

7075. You use the word " contract." I just wanted to ascertain whether you are proceeding on the basis of the payment by way of land revenue payment as a payment based upon a contractual relation between the State and the taxpayer?—Yes.

7076. In public law, is it a common view nowadays of publicists that the relation between the State and the taxpayer is a contractual relation?—During the time of Sir Charles Wood it was settled that land revenue ought to be treated as revenue but not as rent. In India, whatever be the view in England, it ought to be treated as revenue, as otherwise the Government can realise economic rent, whereas it is only realising equitable rent.

7077. I quite follow you, that you say that the land revenue should be looked upon as rent based upon a contract as between landlord and tenant?—Yes.

7078. You were proceeding from that to tell us the reasons for preferring the gold standard, with gold in circulation, to a perfected gold exchange standard?—Unless you have a clear and definite standard, as a standard coin by which both the subjects and the State are mutually obliged to exchange and pay their taxes, if the Government for national purposes, or even for laudable purposes, wants excess revenue, they ought not to impose this invisible taxation by increasing the value of the rupee silver note.

7079. Invisible taxation of this sort depends on the ratio between the internal currency and gold?—Yes; that means practically imposing duty on exports and giving bounty to imports.

7080. Are you then in favour of maintaining the present ratio of 18d.?—I am in favour of 16d., because we must be as near as possible, under the circumstances, to the bullion value.

7081. One could not attain 16d. without a measure of inflation?—Yes; because from 1s. 4d. we have increased to 1s. 6d., and in course of time we can increase to 1s. 8d.; there is not much difficulty.

7082. And inflation is recognisably one of those invisible taxes which you deprecate?—Yes.

7083. Might it not, therefore, be said that by returning to 1s. 4d., with a necessary measure of increase of the currency, we should be doing just what you deprecate, that is, imposing an invisible tax on the people?—Yes; but under the circumstances, rightly or wrongly, for the last 20 or 25 years you made them pay. They are accustomed to pay it, and, therefore, whatever grievance there is, there it is, and we would not increase it. Not because it is equitable, but it cannot be helped, because for the last 20 years we are doing it.

7084. Do I understand that you would be opposed to the adoption in India of a system like that in the United Kingdom, where gold is available for external purposes only, and does not circulate in the country?—But in the United Kingdom now I don't think there is any difficulty for them so long as the sterling and bullion are on par. They have no silver coinage like shillings which have got any independent existence, apart from there being a subsidiary coin. All attempts made in order to bring in the scientific measures have been rejected even by the financial experts in England as well as by various other persons.

7085. You are aware, are you not, that at the present time we have in the United Kingdom a gold exchange standard?—I am not aware. But I am aware that they have got gold standard.

7086. In the United Kingdom, internal currency is not convertible at present. Gold is only obtainable for export. I understand that you would not be content with such a system for India?—I want not only gold standard but also gold currency.

7087. What additional advantage, in your opinion, is added by having gold in actual circulation?—If there be standard gold coin in actual circulation and the people instead of depending upon the executive, can import gold by selling articles in foreign countries and they can pay taxes instead of depending upon Government, it is an advantage.

7088. Let us examine that, because this is a basic point. People can now get gold, can they not?—They can get gold but we cannot offer gold because we have to offer only at any high figure. We cannot give sovereign for Rs. 10 when the value is more. That means a practical loss when you give a sovereign to get Rs. 10.

7089. That is due to the artificial ratio?—Yes.

7090. Supposing that the established ratio were reduced to the current rate of 18d. and a mint were established in the country, so that anybody who liked might have gold bullion coined into gold for currency purposes, what would the effect of that be in your view?—At this 2d. in excess over 1s. 4d. there will be an additional increase of export duty of 12½ per cent. and a bounty on imports, equal to that amount.

7091. If gold were given in exchange for rupees, would, in your opinion, a large proportion find its way straight into hoards, and, if so, what would be the advantage of that, or would it remain in circulation as currency?—The necessary amount for the use of subsidiary coin must be maintained because at all times some amount of rupees must be in circulation. But when you want to keep a depreciated rupee and when they can possibly get a high-value sovereign, they would naturally prefer to convert it if they can have it.

7092. Would, in your opinion, the gold now held as a store of value in the shape of ornaments or

* Appendix No. 34.

bullion——?—Oh yes. That is not only now but for 50 centuries in India.

7093. I am not quite sure you have appreciated the effect of my question; I did not, indeed, finish it. Would the gold now held as a store of value in the shape of ornaments or bullion be presented for coining, and, if so (just to present the alternatives), would it go into circulation or be replaced in hoards?—I think when bullion can be converted easily by the mints in giving current coin, a large amount would naturally flow again into the mints as it has done in other countries. There is no difficulty so far as that is concerned because there is no particular facility here. There is no particular advantage now, so people keep it either as bullion or as ornaments. Otherwise as necessity arises, the ornaments would be melted or the bullion would be sent to the mints as soon as they can have a definite value.

7094. Now we come to the real difficulty which your proposal presents at first sight, and that is this. You contemplate in your very full memorandum the conversion into gold of as much as 300 crores of rupees. From whence shall we obtain the gold?—I think it will take some time. According to the calculations mentioned in the Secretary's memo. I think the amount that will necessarily be offered will be only about 110 crores, they say. But whatever be the amount we must get sufficient gold for such of the excess coinage which is not intended or which is not necessary for subsidiary purposes.

7095. How will you get it?—We have got some gold already and we have got sterling securities and gold in reserve altogether to the extent of 116 crores and after all you want only 110 crores—that is not much. In the course of five years you can find necessary amount.

7096. What is the figure at which you finally arrive? —116 crores both in gold and in sterling securities.

7097. You see I am confronted at the beginning of paragraph 50 of your memorandum with the statement: " About 300 crores should be gradually converted into gold coin." That is your considered estimate, I imagine, of the amount to be converted?—Yes, but I found from the other information supplied by the Secretaries that 110 crores only would be necessary, not 300 crores. That is what I guessed. I may be wrong. But after all it is all guess work. We must account for the coin 350 crores. Whether any has been melted or sent out or available—it is all guess work.

7098. It is all guess work?—Yes.

7099. In connection with this question of the opposite side of the book and the sale of silver, I understand that you recommend an import duty on silver of 15 per cent.?—Yes.

7100. From your practical acquaintance with administrative conditions here, with public opinion and so on, do you think it would be possible, supposing such a measure were to be adopted, an import duty on silver, to keep up the higher price of silver in India when there was a much lower price in the rest of the world? It is a practical question that deserves consideration, is it not?—But my submission is that when silver is brought into India then they have to pay an import duty. But so long as it is outside India, the price prevailing outside will be the price prevailing in Inda *plus* duty. But when you want to compete with India you have to pay an import duty.

7101. There is a strong bonus upon illegal import under those conditions, is there not? I am told that, in the past, there was great difficulty in maintaining the customs barrier against the importation of this high-priced commodity in a small volume under these conditions?—But we didn't find any difficulty in putting an import duty on silver, jewellery, etc. I don't think there will be much difficulty. And this has been advocated by the Karachi Chamber for a long time and by some members of the Assembly.

7102. You do not admit there there will be any administrative difficulties?—I don't think so.

7103. Even from your acquaintance with a similar duty in the past?—I don't think so, Sir. Of course, some portion would escape and would be detected.

7104. In connection with this interesting question of a ratio for the rupee, I think I can put my essential question to you there in a very general way, and that is whether, in your opinion, the prices of commodities are adjusted to the ratio of 18d. which at present prevails as the market rate of the rupee?—As I understand it, Sir, the world prices are higher than the prices in India and that is on account of the high exchange. On account of the high exchange our prices did not soar sufficiently high along and in sympathy with world prices.

7105. Present prices?—Even the present prices, with reference to various articles. I don't think they have got the same price which they are fetching in other countries.

7106. What articles are you referring to in that connection?—I may mention the articles that are generally used (which are not the monopoly of India for instance like jute and such like),—we can take either rice or wheat.

7107. Does the price of wheat in India show any marked maladjustment with the world price of wheat? —I have not got the prices of to-day but for a long time the prices here were less than those prevalent in other countries. The prices prevalent in other countries are much higher than the prices prevalent in India, but I don't know the exact prices to-day.

7108. Is it your impression that the prices prevalent in other countries at the present time are much higher than in India?—That is my impression.

7109. What do you consider would be the consequence of an enhancement of prices if the ratio were to be reduced to 1s. 4d.?—It would be to the advantage of the producer, to the larger number of the people, and all those who depend upon land.

7110. How would that advantage accrue?—Because most of the articles which they consume they produce from the land and what little they want from outside they can utilise it from the sale amount.

7111. What would be the effect upon the country?—It will be altogether beneficial. This is not only my own personal view but this is also the view of Mr. Datta, who inquired into the prices, and various other persons.

7112. Who is Mr. Datta?—Mr. Datta was the Accountant General to the Government of India and was specially appointed to inquire into prices. In his report he stated ——

7113. What report are you referring to?—An Inquiry into the Rise of Prices in India, by K. L. Datta, M.A., Fellow of the Royal Statistical Society. In this report he states that it was beneficial on the whole, taking all things into consideration.

7114. Such a general statement can be of no assistance to the Commission?—He has devoted 30 or 40 pages to this subject.

7115. You would refer us to his arguments in that particular passage relating to the rise of prices, which the Commission will consider. What is it exactly? Can you summarise for us what Mr. Datta sets out in his report?—He says on the whole it is beneficial.

7116. Beneficial to whom?—Beneficial to the people.

7117. What is beneficial?—That is lower exchange and higher prices will be beneficial to the country in general. On page 189 he says: " In the last chapter it has been shown that the effect of the rise of prices on India as a whole has been beneficial."

7118. What rise of prices is he referring to there? —He is referring to the prices of various commodities up to the year 1914, before the war. This book was published in 1915.

7119. It would not necessarily follow from that that a further rise of prices at the present time would be beneficial?—Because whatever be the rise of price for the produce that is exported from this country it is an advantage.

7120. You see we have always to consider the limiting case. How far would you carry it? If a rise in prices is beneficial, where would you draw the line?—It all depends upon the extent of the demand. If the people are not prepared to pay the price, they will not buy it, they will go in for some other substituted article.

7121. On page 189 Mr. Datta, who is a Fellow of the Statistical Society, a Master of Arts, and an official of the Government (he was an Accountant General), says: "the effect of a rise of prices in India on the whole has been beneficial. India has now to part with much less of her produce to meet her foreign obligations for the same reason that her produce has risen in value in European markets"?—With your permission, Sir, I may quote, you may attach what value you may be pleased to, from a book, "Ideals and Realities, Studies in Education and Economics," by Mr. Shaffat Ahmad Khan, M.A., Litt.D., Assistant Professor of Indian Economics, Madras, and who was Senior History Lecturer to the London County Council in 1917-19, etc. He concludes in his book thus:—"We may now review the above, and sum up the results of our inquiry. High exchange will certainly mitigate the rise in prices, and though certain producers will suffer, the public will be the gainers. But this advantage is countered by the losses which the Indian export trade and the Indian industrial establishments will sustain through the rise in the exchange value of the rupee and competition from foreign countries. It will curtail exports and give a great impetus to imports. The curtailment of exports may only be temporary, but the adjustment to which some defenders of high exchange referred may be delayed so long that the Indian exporters may find themselves ousted from foreign markets. On the whole, I think, a high rate of exchange will prove disadvantageous to India. Her export trade will decline; cheap Japanese goods will dominate the market and tough prices may fall and the cost of machinery, etc., may be lowered, the industrial development of India which began only recently, and which ought to be fostered actively, will be retarded by the raising of the exchange value of the rupee."

7122. That is much to the same effect is it not?—Yes.

7123. Then you base yourself upon the view that a fall in the Indian exchange and a rise in internal prices in India can produce a rise in the value of Indian products in the European markets?—My submission is this. Supposing for 10 sovereigns I get say Rs. 150. The Indian producer in such a case thinks he has got Rs. 150; if he could get only Rs. 13 per sovereign, he says he is getting Rs. 130. Therefore the difference between Rs. 130 and Rs. 150 is the difference which he thinks he was able to sell by a lower exchange. If a person were to get 10 sovereigns. If you fix it at Rs. 13, he would get only Rs. 130 in exchange in India; if he gets 15, he can get Rs. 150, so in such a case he thinks he made a profit of Rs. 20 in excess.

7124. I want to be sure that I am doing justice to Mr. Datta's argument. He refers to the rise in value of Indian produce in European markets, and, I gather, otherwise the argument would be totally irrelevant, that he attributes that to the effect of the fall in the Indian exchange, so that I think on the whole I have done justice to Mr. Datta's arguments. Now will you tell me, from your wide practical experience of the conditions of contracts and so on in this country, what your view is on this point. We have been passing through a period of very variable exchange, and at each variation of exchange a certain number of contracts have been entered into based upon the prevailing rate. There was a long period of 1s. 4d., then a period of extremely fluctuating exchange rates, followed by the recent comparatively stable rate. What, in your opinion, from your large experience of trade conditions, is the magnitude of the relative interests involved in the 1s. 4d. contracts, the contracts between 1s. 4d. and 1s. 6d., and the final contracts recently made at 1s. 6d.?—There is of course no census or any account prepared by the Government of the actual indebtedness of the people, but generally so far as I know, there was a large amount of agricultural indebtedness, and those agriculturists could only realize, if they got higher prices in order to discharge their debts, if they got a smaller number of rupees, they might not be able to discharge their debts; therefore, in that manner they would be affected, and that was a very large amount, it might amount to 900 crores according to my idea but it cannot be less than 600 crores.

7125. How have you arrived at that interesting figure?—We have got the previously published books about the agricultural indebtedness in the Punjab by Messrs. Darling and Calvert Shornburn as well as in Madras by Nicholson with reference to various provinces. If you calculate it, we arrive at a figure which ranges between 600 to 900 crores.

7126. That is one element with reference to the advantage and disadvantage to agriculturists, but that is, after all, only one figure which does not enable us to make a comparison. Are there any other figures to compare with that as to the volume of contracts in India?—With reference to the Government obligations of course, when they have to pay rupee obligations which are about 500 crores, if the value given to it would be disadvantageous by increasing the price of the rupee, in that respect the Government are undertaking a larger duty by increasing by a higher exchange the obligations which they owe to the public. That is a disadvantage to the taxpayer. I am putting the converse case, in case they have to convert it into sovereigns at any stage, the taxpayers will unnecessarily be burdened by this high exchange.

7127. I understand the general effect of your recommendations is that you would introduce a gold standard with a gold currency; that you would limit the legal tender of the rupee; that you would make rupees convertible into gold; and that you would adopt the ratio of 1s. 4d. as between the rupee and the new gold standard coin?—Yes.

7128. Would you like to supplement that in any particular as regards the future control? Is there any point regarding the control of the currency of the country on which you would like to lay special emphasis?—My submission is that unless our currency is placed on a sound and durable basis, this is not an opportune time for transferring it to the Imperial Bank, because the Imperial Bank of India Act has to be revised by 1931. Within these five years we may be able to gauge the correct situation with reference to the convertibility of the rupee obligations into gold, and the Bank itself cannot undertake that responsibility or take that risk; and moreover whatever profit they realize would go to them and not to the State, that means, indirectly, to the taxpayer because—

7129. All this is a matter for agreement, is it not, between the Bank and the State?—Well in 1931 we can scrap all the terms and introduce fresh terms. That is the time when we can fix our own terms. Now in the pending currency of the old agreement, we cannot introduce terms which will be disadvantageous to the Imperial Bank.

7130. I do not think we need be unduly intimidated from an inquiry by the fact that there is an outstanding agreement between the Bank and the State. I am completely ignorant as to what notice is necessary for its termination. We ought, in making any recommendations, to consider the question at large, to consider what is best?—Of course if the proprietors and shareholders are prepared to place it on a general basis without relying upon the terms of the Act, then they can enter into a fresh agreement. If they say "we will hold on to what we have got," ——

7131. I imagine you would maintain that, subject to the observance of absolute equity to the shareholders of the Imperial Bank, reasons of State are far too strong to prevent any existing order standing between Indian merchants and that organization of a central banking system which is best in the interest of the State?—I always liked a Central Bank because some years ago I said that even currency should be entrusted to the Imperial Bank, but what I find is that all the profits will go only to the shareholders, and there is no share at all for the State to any extent whatsoever as it is in some other countries, and I think it must be considered how far we can allow the Imperial Bank shareholders to be benefited

at the expense of the taxpayers, and whether the taxpayer or the State should not realize a portion of it. For instance, in Germany, if they get more than $4\frac{1}{2}$ per cent. dividend, the German State would get half; when it rises to 8, they get about $\frac{3}{4}$ths and here, even when it has gone up to nearly 24 as nett profits whereas under the system of the old Presidency Banks it used to be only between 10 and 14, there is not a gain of a single pie to the taxpayer. Therefore, all these things must be considered; but we are now in a difficult situation, how to place currency on a sound, durable basis, and perhaps the situation will be complicated by bringing in another factor which does not sound after all very easy solvable matter.

7132. That other factor being the transfer of the control of the currency issued?—Yes. There are 191 crores, on 50 per cent. of which they can realise interest without sharing it with the taxpayer.

7133. What are those figures?—At present there are 191 crores of currency, that is in currency notes, in circulation. What they suggest is that out of 191 crores.

7134. Who suggests? — Perhaps some witnesses before your Commission.

7135. Are you referring to the memorandum of suggestions?—Yes. Therein they state that they are entitled to 50 per cent. issue without any reserve. That means an advantage of realising interest on that amount.

7136. 50 per cent. fiduciary note issue?—Yes.

7137. And your comment upon that?—Interest on about 95 crores will accrue to the Bank and not a pie would be shared by the taxpayer.

7138. You would not suggest, would you, the bank was doing nothing in return?—In the circumstances the only thing that was mentioned is that they will purchase bullion as is done by the Bank of England.

7139. There is nothing startling or unprecedented in such an arrangement. Is it not a common arrangement, as between a Central Bank of issue and the State, that, in return for the profits to be made upon a fidiciary note issue, the Central Bank in the first place performs certain services for the Government, such as the control of the national debt, and indeed, the management of the note issue itself, and further, that under certain circumstances there is an actual payment made by the Central Bank to the Government in some form of tax in return for the privilege of note issue. We do not find anything unusual in such an arrangement?—But in the arrangement suggested by you, Sir, I do not find a special advantage except that they will maintain an exchange according to the rate fixed by the Government. But they do not take any risk because instead of themselves undertaking to keep the reserve, the Government itself should keep the reserve for redemption.

7140. This is a matter upon which I have the advantage of being able to put to you some questions which have already been put to-day to another witness. There are various services performed by the Bank. There is the opening of new branches at a loss. That is a service rendered to the State?—That is in consideration of keeping the treasury balances.

7141. Let us look at the two sides of the account. On the one side, there is the keeping of the treasury balances and the privilege of note issue; on the other side of the account—(I am not sure that I am enumerating the whole number),—there is the actual management of the note issue and the opening of new branches?—Opening of new branches, they have undertaken it when they agreed to keep our treasury balances with them.

7142. May I suggest to you the other things that occur to me? We have also been told in evidence that there is the conduct of the remittance business at a rate lower than it can otherwise be conducted at, that is, remittances as between cities A and B in India for the public. Further, I suppose it will be part of this proposal that the Bank should conduct the remittance business for the Home charges for the Government. I am just trying to enumerate all the services which a bank would render. I have no doubt there are others which escape my memory at the present moment?—I am not averse to Bank managing all these things. But they should not receive abnormal profits. Previously the Presidency banks were making a profit of 10 per cent.; they are now making 24 per cent. We must make some arrangements to see that the interests of the taxpayer are not sacrificed.

7143. That is all I wanted to bring out, that it would be a matter for agreement between the Central Bank and the State to provide a fair adjustment of mutual benefits and advantages?—But I may add, especially at a time when there is no responsible Government, all the more the burden is on your Commission to see that the interests of the taxpayer are properly safeguarded in making the suggestion of entrusting about 190 crores of note issued to the bank when they have got a capital of about 11 crores.

7144. (*Sir Reginald Mant.*) Mr. Venkatapatiraju, you quote a conclusion from Mr. Datta's report that the effect of a rise of prices in India as a whole has been beneficial. Did I understand you to say in reply to the Chairman that Mr. Datta was there referring only to the rise in Indian prices, internal prices, or to the rise in world prices?—I was mentioning my view and I am supported by Mr. Datta and various other persons who have dealt with this subject. I am mentioning my view. My view is that the ryot will receive advantage by getting more rupees so long as you continue rupees, whatever be the value realised in the foreign market.

7145. I was not asking your view. I was asking the interpretation which you placed on Mr. Datta's report. I leave it to you to interpret it?—That is my view and I am supported by Datta.

7146. (*Chairman.*) I am afraid I had no time to look at the report very carefully.

7147. (*Sir Reginald Mant.*) I have had time only to glance at it but it will only be fair to Mr. Datta to pursue this statement. Did you or did you not imply in reply to the Chairman that Mr. Datta in this passage was referring only to internal prices or to the rise in world prices?—I am not sure whether I made myself intelligible. But my contention is——

7148. I want to know how you interpret Mr. Datta's authority to which you referred?—It is there. I am not interpreting it. I leave it to you to interpret. I am stating my view and also state that this is supported by Datta.

7149. In paragraph 328, Mr. Datta states: 'It is far from being a matter of grave doubt whether the welfare of the country as a whole is furthered by a rapid rise in general prices. The question depends on the general economic condition of the country itself. A debtor country which has a large foreign obligation to meet or to export part of its produce benefits when the price of such produce rises.' In para. 333 he says 'India is a debtor country with large foreign obligations.' He then analyses the rise in prices of India's exports and he says, 'the rise of prices in recent years has enabled India to discharge her foreign liabilities by the export of a proportionately smaller quantity of her produce.' I put it to you, Mr. Venkatapatiraju, that he is referring there to the external prices, the prices that India gets for sale of her produce. He is not referring to a rise in prices produced by a lower rate of exchange and in the passage you quoted he was summarising his previous argument?—Suppose I can sell 10 garsis at Rs. 15 a sovereign, garse being a measure of grain. In order to get a certain amount I will sell a certain quantity. The ryot has to make payment in rupees and for that amount he can sell it. It may mean as you suggested that it may be the world price in a foreign country or it may mean larger money realised by the ryot; but it does not mean only world prices. It cannot be definitely said, as you seem to suggest, that it means only world prices.

7150. It obviously means world prices?—It may not necessarily mean that. It means both world prices and internal prices. I do not dispute your proposition but I do not give up mine.

7151. Now leaving aside Mr. Datta, can you explain to me how India as an exporting country will benefit from a rise in internal prices only without a corresponding rise in external prices?—Unless the ryot realises whatever he expects, he won't sell it either internally or externally. He expects a certain amount, to meet his cost of production and other things. He won't sell his produce either internally or externally unless he would get that amount and if a foreign contractor wants to purchase it, he must purchase it at his price and if there would be a sufficient demand, he would realise it.

7152. By foreign contractor, you mean foreign purchaser?—Yes. The foreign purchaser must pay the prices which the producer dictates if there be an effective demand. If there is no effective demand, if there is a copious supply, he might expect what price is offered to him. Otherwise, he will dictate his own price.

7153. If you have a monopoly. But if you have not a monopoly and you fix a higher price and people are not prepared to pay it, you won't sell your article?—Yes; I admit that with reference to the article which is not a monopoly. But I say effective demand and copious supply determines the price.

7154. (*Sir Purshotamdas Thakurdas.*) Whatever be the exchange ratio in India, do you think that that make any difference in the world prices of a commodity? Whether the exchange in India is 1s. 4d. or 1s. 8d. or 2s. 4d. or 1s. 1d., do you think that that makes any difference in the world prices of a commodity?—Not at all.

7155. The world price is the same, is it not?—Yes.

7156. Then the only extent to which the Indian cultivator is affected by the ratio here is as far as the conversion of the world price into rupees is concerned?—Yes, into the coin which he is to receive.

7157. Namely, the Indian rupee?—Yes.

7158. Then the question of any higher price in gold, in the world market does not at all rise?—Not at all.

7159. Your contention therefore is that the lower the ratio the more rupees the Indian cultivator will get for his export?—Yes.

7160. And the higher the ratio, the less rupees he will get?—Certainly.

7161. You do not expect that there will be any change in the price available for a commodity by the Indian cultivator owing to any change in the ratio?—No, not at all.

7162. Will you refer to paragraph 48 of your printed memorandum. The last part of it shows, if I interpret your quotation there correctly, that you have no faith in the theory of control of prices by exchange manipulation or by change in the ratio. Would that be a fair interpretation of that paragraph of yours. I beg your pardon. I mean the first part of that paragraph where you say with regard to a scientific currency "As Mr. Morris puts it, it is unstable in itself and non-international in practice, if paper money is to be regulated by index number of prices which we are told 'are never accurate in their decimals and rarely in their units'". You have no faith at all in the scheme of control of prices by exchange manipulation or a change in the ratio?—If I may make my position clear, stability of prices cannot be secured, that is my idea, by any of this artificial control. You can stabilise prices by imposing a law that you ought not to sell except at such and such a price, as in fact has been done in famine days and during the war.

7163. You mean control of prices of foodstuffs?—Yes you can fix prices direct by statute and legislation saying that people must not sell their grain at more than this price and so on. Or you can put an embargo upon export so that they will necessarily be cheaper in the country.

7164. Then I understand I am quite correct if I interpret this part of your statement to mean that you do not believe in any control of prices by a change in the ratio or by any rise or fall in the exchange?—Yes I agree.

7165. You were telling us something about land revenue every 30 years. I am afraid I did not follow you?—In the Madras Presidency and also in some other Provinces once in 30 years settlement is made with the ryots by the Government that they must pay a certain number of rupees say Rs. 10 per acre wet and Rs. 6 per acre dry.

7166. What crops?—Wet land and dry land; the assessment is fixed for a period of 30 years and cannot be changed. If during that period you artificially raise the value of the rupee that ryot who sells his produce and receives a smaller number of rupees would necessarily be the loser by the manipulation of the exchange. That is one case. Another is with reference to most zamindaris under the permanent settlement which have a fixed assessment payable to Government at a certain rate which is permanent and the Government cannot increase or decrease it; they may forego it but not decrease it. If they are producers to the extent they are producers, if they receive grain towards their dues they will be affected otherwise they will not be affected. Persons who receive rent in cash will not be affected. Persons who are producers will to that extent be affected because their produce will realise a smaller number of rupees.

7167. The actual grower, the tiller of the soil?—Yes.

7168. I will just ask you one more question. In paragraph 49 you say, "The only feasible course seems to be of using currency notes of a pound and 2½ and 5 and 10 and 100 and 1,000 pounds by converting rupee notes at Rs. 15 per pound." You want pound sterling?—No I mean the sovereign; I do not mean sterling, but I find no difference at the present moment between sterling and pound in England.

7169. You mean notes of a sovereign, and then 2½ sovereigns and 5 sovereigns?—Yes, different denominations.

7170. All in sovereigns?—All in sovereigns or if sovereigns are not accepted by the Home Treasury authorities in mohurs.

7171. The pound there means the gold coin whatever it is to be?—Yes, the gold coin.

7172. (*Professor Coyajee.*) Excuse me, Mr. Raju, but let us distinguish the problem considered by Messrs. Datta and Shirras from the problem before this Commission. In the first place in those days the exchange remained steady. "While the exchange remained steady the prices of Indian produce rose whereas the prices of imported goods fell; therefore India had then to part with much less of her produce than formerly to meet her foreign obligations; the surplus of produce available for export was very much more valued on account of the rise of prices than formerly and consequently India's exports have have grown considerably in value in consequence of the rise in prices and only a part of this increase goes towards meeting the increased cost of production." That is not the case at present. At present the exchange has been reacting on the prices. Formerly it remained steady although the prices of your exports were affected in a few cases. You see India gained in those days as a country on acount of the rise in prices. This is accounted for by Datta and Shirras by saying that India obtained for each unit of produce exported a larger price whereas she paid a smaller price for each unit of import. That distinguishes the problem from now when prices have risen both in this country and in other countries both in the case of exports and imports. Then coming to the cultivator

he gained by a rise of prices but for a special reason. The cultivator gains because his prices have risen faster than his cost of production. As Messrs. Datta and Shirras say, it is not always that the cultivator gains by a rise in prices but only if the prices of his produce rise whereas his cost of production does not rise correspondingly?—Yes, but even Sir Basil Blackett has admitted that the rise of exchange bas kept Indian prices low when compared with world prices. Even he has admitted it. What I said was whatever be the world prices when I can get Rs. 15 and get Rs. 13, it does not matter how you put it, the loss of Rs. 2 is patent and cannot be got away from. Moreover whatever be the world prices, why should our people by any manipulation be prevented from realising and enjoying the higher price which is available from world prices by any method; why should we not get the higher price if it is available elsewhere?

7173. There is no reason whatever except this that in those days when prices rose although our export prices rose and our import prices fell our exchange remained steady. That is what I am pointing to you as distinguishing this case from the case put by Messrs. Datta and Shirras.—.........Up to 1914 it was 1s. 4d.; but what I state is whatever be the exchange why should you meddle with the exchange in order to reduce our prices. It is admitted on all hands, by putting on a high exchange your prices will be lower than world prices. The persons who are responsible for it admit that.

7174. But you must look not only to the prices of produce but to the cost of production.—All those things, the cost production and the necessary things he has to purchase, have been taken into consideration. After taking all those things into consideration these gentlemen have definitely come to the conclusion that it is beneficial. Not only Sir Basil Blackett but the writers of this report also have arrived at the same conclusion, besides which all Indian economists admit it.

7175. (*Chairman.*) With reference to that, you say the persons responsible admit it. In justice to Mr. Datta it must be said that his argument has not been brought forward in the connection in which it was produced. Further, no doubt you are aware that the report to which you refer of Mr. Datta's was reviewed not wholly favourably by the Government of India who did not accept all Mr. Datta's conclusions?—Yes, in the preface they say on some points they do not accept it. I know as regards this particular point they have not said so, because at that timo the Government were anxious to say that after all high prices do not do any harm. That is their idea.

7176. So that you must not put the whole of the Report upon the Government of India?—No, I am only quoting the opinion of an officer of Government, a gentleman appointed by the Government, who cannot be against the Government.

7177. Not perhaps the persons responsible, who are ultimately the Government of India?—With reference to that with your permission, Sir, I may invite attention to the statement made by the Secretary of State both in 1879 and 1886. By this high exchange you are only saving yourself the necessity of putting the burden on the taxpayer by putting it on the producer; and Government themselves admit it. Therefore they know they are doing something wrong.

7178. The argument that a rise in world prices is beneficial to this country or another is a familiar one which should cause no surprise?—But as pointed out by another economist a person who invests a large amount such as England will always have the advantage of higher exchange values whereas a country which has to pay 50 crores annually is in a disadvantageous position if prices are low, because what is good for England may not be good for India.

7179. (*Mr. Preston.*) Mr. Raju, might I draw your attention to your supplementary memorandum* which you have just sent to us, where you say, "I cannnot persuade myself to believe that the gold exchange standard would ever prove beneficial to the country." The gold exchange standard of which you speak there was brought into force in 1893 and functioned up to 1915. From 1899 to 1915 it was the means of providing a stable rupee exchange at 1s. 4d., throughout the whole of that period?—Yes.

7180. And during that time I think it has been universally recognised, and I think you must admit also from your own point of view, that it produced a measure of great prosperity to the land of India: will you admit that?—I do not admit the inference which you propose to draw from the premises which you lay down.

7181. Did it not bring to the land of India a great amount of prosperity?—Yes. By robbing Peter to pay Paul.

7182. I am not talking of robbing Peter. I am merely asking you a question. During that period is it not a recognised fact, that over the whole of that period the country prospered to an abnormal extent?—Not on account of the gold exchango standard.

7183. Was it not due to the fact that from the period, 1899 to 1915 we had a stable rupee?—We had good monsoons; we had good production; and on account of irrigation facilities and railway facilities we were able to sell and become prosperous, not on account of exchange.

7184. That is exactly what I wanted to get at?—My reply to that, Sir, is that the prosperity of the country depended on various other factors, not at all on the exchange factor.

7185. You admit that India was prosperous any way, that she achieved a great amount of prosperity during that period?—Achieved some prosperity; I do not say that she could not have achieved more prosperity under self-government.

7186. Let us get at this. during that period from 1899 to 1915 India was very prosperous?—She was bettor than before.

7187. Then you go on to say, "I may be excused for my non-possumus attitude towards the gold exchange standard in any form whatsoever unless it is modified to such an extent as to rename it gold standard." Does that mean that, provided you have the system which was in force from 1899 to 1914 during which period India had this wonderful amount of prosperity, provided that system was renamed a gold standard, you will be quite satisfied?—That is not at all my view. What I state is this: that what every other country which is responsible to its people has not accepted should not be thrust upon us just because India is a dependency like the Philippines. You cannot put that forward as a thing which has brought prosperity to India. The prosperity to India was brought by other factors. So long as the Crown has got a monopoly of coinage, if you put in a standard coin and a subsidiary coin, I say let it be a standard coin and a subsidiary coin mutually obligatory on all sides. If, however, you want to put it only as a measuro of value which you want to change whenever you find it necessary to do so, I say it is not at all advantageous to us. We are bound to accept it because we cannot help it since we have no political authority, but it is not advantageous to us.

7188. What I am trying to bring out is this: you say "I may be excused for my non-possumus attitude towards the gold exchange standard in any form whatsoever unless it is modified to such an extent (this is your own wording) as to rename it gold standard"?—I am sorry if my language is not clear; what I mean by that is I want to modify that standard in such a manner that you can only call it a gold standard, such as is known all the world over; and not a gold exchange standard.

7189. (*Chairman.*) I think perhaps if Mr. Raju substitutes the word "reconstitute" his meaning would be clearer?

7190. (*Mr. Preston.*) I accept the wording of the Chairman: let us take it this way: "I may be excused for my non-possumus attitude towards the

* Not printed, vide footnote to Appendix No. 34.

gold exchange standard in any form whatsoever unless in a remodified form so that it may be renamed a gold standard." You accept that?—What I mean is this, whatever the particular wording may mean. I want a gold standard pure and simple, an honest gold standard such as is observed in every country which is responsible to its subjects. I do not want any other standard.

7191. (*Chairman.*) I think really what Mr. Raju has in mind is reconstitution of the existing system into a gold standard. I do not think he really means "renamed." What he wants is a gold standard. What he means by a gold standard is, of course, quite another thing.

7192. (*Mr. Preston.*) Thank you very much, Sir.

7193. (*Chairman.*) It occurs to me to ask you in connection with that, in order to clear up what your meaning is, the standard of what other country would you accept as an ideal?—I would accept England or the United States.

7194. But those two standards are totally dissimilar, are they not?—So far as I understand it, for our purpose we can make changes in our system in order to adjust our system to that of England or the United States. I have suggested that during the transition period we can adopt the course that was adopted in America of issuing gold certificates. Or, if you want it to be readily convertible as is the case in England, you could have it.

7195. (*Sir Alexander Murray.*) Just one thing: as I understand your statement, you are in favour of a lower rate of exchange even though it may mean high prices in India?—Certainly.

7196. (*Sir Alexander Murray.*) You do not argue that the high prices that were ruling at the time that Mr. Datta made his inquiry were due to a low exchange?

7197. (*Chairman.*) I think it was established that Mr. Datta was referring to higher world prices following the value of gold, and that it was not the effect of the Indian exchange at all. You must do Mr. Datta that justice.

7198. (*Sir Alexander Murray*). As a matter of fact I think Mr. Raju makes it quite clear in his supplementary statement where he says "Mr. K. L. Datta's report on Enquiry into the Rise of Prices in India will give useful information wherein he stated that rise in prices in India was due to a shortage of supply, particularly in the case of food grains."—I may be excused, Sir, for repeating myself: I said Mr. Datta's report would be advantageous in order to understand the effect of high prices, because there is a misconception that high prices are injurious to a country. In order to meet that objection Mr. Datta has specificially pointed out in chapters 12 and 13 of his report that high prices would cause some inconvenience to a smaller number of people and advantageous to a large number; and I add to that a high exchange brings in a smaller number of rupees to the producer and therefore it necessarily follows that the persons who produce will be losers; that is, a large section of the population would be losers, while a small section gets the advantage; the country as a whole does not benefit by it.

7199. Quite true: at the time Mr. Datta wrote he was not referring to the high prices in India in that they were higher than the prices ruling in other countries?—He was only speaking of the effect of high prices on various sections of the people.

7200. In India?—Yes. He was taking into consideration consumers and producers and persons dependent upon the land; he says that the larger number would be about 70 or 75 per cent. who would be benefitted and that the smaller number would be about 20 to 30 per cent. who would be adversely affected; therefore, taking it numerically I say I would prefer high prices because it is advantageous to India, in spite of causing inconvenience to a small number of people. That, I think, is what he was driving at.

7201. (*Sir Maneckji Dadabhoy.*) Mr. Raju, you spoke about the ethical objection to the depreciation of the rupee and you say that both the permanent and the ryotwari settlements are affected by the rise in the rupee, because their mutual contract is not fulfilled in the sense originally intended?—Yes.

7202. Will you please explain this a little further and let me know this: of course you know that there is a great controversy as to whether what is paid to Government is rent or revenue. Apart from that question, when the rent is paid the landlord also receives from his tenant cultivators in the same shape: so how is he affected?—What I am stating is that all those who are producers themselves will be affected.

7203. In other words, your contention is that the change in ratio is an invisible taxation on the producer?—Certainly; and not only on the producer but on all those who depend upon the land.

7204. It is an invisible taxation?—Yes.

7205. And as such it is opposed to all ordinary canons of the law of taxation? That is your view? —Yes; because if you do want to impose taxation, you can impose it directly; if you want more money for national purposes you can impose taxation on tho nation as a whole but you cannot impose it on a section.

7206. If there is any deficit by a lower ratio, it could be met by taxation of the whole country, evenly distributed? That is your argument?—Yes.

7207. You recommended an import duty on silver? —Yes.

7208. Is there not a very strong sentiment in the country against the imposition of an import duty on silver, as a taxation on the saving of the people? —Persons who had trade formerly with China and Japan now find that their Japan trade has gone and the Chinese trade is dwindling; and at the time when it was introduced a question was raised in the Assembly whether it was beneficial or not. What I say is that when India gives up the rupee as a standard coin and brings it down to the level of a subsidiary coin, naturally there would be dumping into India of cheap silver. I want to protect the country against that by putting an import duty on silver and for that purpose I think it is fair that the State also should realise some amount to help the convertibility of rupee obligations, besides preventing India being made the dumping ground for other countries of their cheap silver, which would naturally be the effect of any change in the position of the rupee.

7209. Let us carry your argument a little further: when the gold standard is introduced the price of silver will fall in the country?—Yes.

7210. How will this duty affect the general price of silver—this additional import duty?—The general price in the world won't be affected. Any silver you purchase for India you have to add whatever import duty you place on it. Therefore, when the world's silver is competing with Indian silver, it has got the disadvantage of paying the import duty. To that extent silver value will be appreciated.

7211. I don't quite follow you, Mr. Raju. Just let me put it this way. When you introduce the gold standard and make the rupee a limited tender, the rupee silver will have to be sold. You cannot lock up all that silver in the country?—No, but a smaller number of coins will do.

7212. But what about the silver which is in large hoards in the country?—The large hoards will remain in the country or they may be exported.

7213. That is why I want to be exact. If they are to be exported, the price of silver will go down. On the other hand, you contemplate an import duty on silver. How will it affect the internal silver in the country?—It would appreciate to that extent in world competition. If I have got an article here and nobody can compete with it unless he pays an import duty, to that extent the value will be appreciated.

7214. Well, you said something in speaking about the Imperial Bank of India. You said the Bank paid 24 per cent. dividends?—I said 24 per cent.

profits they have made, but only 12 per cent. dividends was given.

7215. (*Sir Norcot Warren.*) It is 16 per cent. and not 12 per cent. You are wrong?—Then it is much worse.

7216. (*Sir Maneckji Dadabhoy.*) Now, you said that if the gold standard is introduced, the amount required for conversion will be about 110 crores and we would be able easily to accumulate the gold required in a period of five years. What is your line or method to accumulate?—When you open a free mint, as we did in 1922-23 when 50 million came in, all this will be brought to the mint and it will be minted.

7217. You mean the bullion which is in hoards?—It is not in hoards. It is with the people, and they will bring it out.

7218. So you largely depend for the fruition of this scheme on the bullion which is with the people and which will necessarily be brought out because once they know gold is being coined, they will have no incentive to hide the gold?—Besides we have either gold or sterling securities to the extent of 116 crores. In the silver currency reserve and the gold reserve we have 116 crores.

7219. Your contention is that there will be no necessity for keeping up both reserves in any strength?—Oh, reserves must be kept, because when you are issuing currency notes you must have a reserve because in order to keep the fears of the people in check. As soon as you lose confidence, there will be trouble, just as the French franc has gone down from 25 to 125, so the Indian notes will go down if the people lose confidence in the Government.

7220. Then there will be another method, because by the favourable balance of your trade you can earn your gold too?—Oh yes.

7221. (*Chairman.*) I do not quite follow the argument. You see, people who hold bullion can get currency for it now. They could sell their bullion to the bullion brokers and get currency. If they do not do it now, why should they do it any more when we make a change?—When the gold coin is standard, if I have got bullion and want to raise money, I will bring in my gold. That ornament or bullion will be sent to the mint.

7222. The point is this. You are counting upon this export of bullion for the use of the people to be transferred to the mints and passed into currency. I put it to you that, at the present time, people can, if they like, get currency for their bullion, but they do not want it. They prefer to keep it in bullion. Why should not they continue to keep it in bullion?—I may be excused, but in 1900 they stated when an attempt was made to introduce currency they said the people don't want it and the currency was stopped. But my reply is that, so long as you keep a depreciated currency as practically a standard coin in the country, nowhere in the world would a higher value coin circulate. Under the Gresham's law, every country failed, because you cannot keep two things running together.

7223. My difficulty is this. You count upon, under some future conditions, people bringing out the bullion which they now import for domestic purposes to pass into the currency. It appears to me that, if they require currency, they could easily sell their bullion to the bullion brokers now. If they do not do it now, why should they do it later?—There are no mints open now.

7224. But you have only got to go and sell your bullion to the bullion brokers and you would get rupees for it?—To what purpose? Because we have still to pay our tax and have to deal in rupees. What is the object? If I can get a coin to satisfy me, it would be different. But I cannot give a sovereign to the Government and receive only Rs. 10 Why should I lose my Rs. 15 worth or Rs. 13 worth of gold? If you make it fairly advantageous to me, I would part.

7225. But that Rs. 10 ratio only applies to the actual tendering of gold to the Government. The bullion broker in the bazaar is open to purchase it and pay a little less than Rs. 13¼ for it. If there is really a desire on the part of the people, or a possibility on the part of the people, that they will convert these gold hoards of theirs into currency, if they want currency, why don't they take their bullion, which they hold in the form of bangles and gold bars, to the bullion brokers and get rupees against it?—I may mention one thing, Sir. When the agriculturists have got prosperity, when they have got a larger amount, they will utilise it and keep it in gold. But when there is adversity they will readily change if there is no loss to them by this change. If I have to undergo loss every time I change it, I prefer to do some other thing instead of converting the hoards.

7226. In the same way, when there is an open and free mint they would have to pay the seigniorage for the conversion of their bullion into gold coin. There would be a small loss, at any rate?—They suggested a small amount. But they know this much that the Government stamp itself carries weight. Because a current coin would fetch more value than the intrinsic worth by an anna or an anna and a half, and on account of the saving of trouble to ascertain the exact fineness of the gold bullion. They have confidence in the Government. Therefore they will be satisfied with gold coin.

7227. I express to you our thanks, Mr. Raju, for your very full evidence to-day?—I must express my obligation to the Commission, Sir, for allowing me as a layman to put my views before the financial experts.

7228. (*Chairman.*) It is to our advantage.

(*The witness withdrew.*)

NINETEENTH DAY.

Tuesday, December 22nd, 1925.

PRESENT:

THE RIGHT HON. EDWARD HILTON YOUNG, P.C., D.S.O., D.S.C., M.P. (*Chairman*).

Sir RAJENDRANATH MOOKERJEE, K.C.I.E., K.C.V.O.
Sir NORCOT HASTINGS YEELES WARREN, K.C.I.E.
Sir REGINALD MANT, K.C.I.E., C.S.I.
Sir MANECKJI BYRAMJI DADABHOY, K.C.I.E.
Sir ALEXANDER ROBERTSON MURRAY, C.B.E.
Sir PURSHOTAMDAS THAKURDAS, C.I.E., M.B.E., M.L.A.
Professor JAHANGIR COOVERJEE COYAJEE.
Mr. WILLIAM EDWARD PRESTON.

Mr. G. H. BAXTER, Mr. A. AYANGAR, } (*Secretaries*).

Mr. RAMACHANDRA RAU, called and examined.

7229. (*Chairman.*) You are the author of several works on banking and other matters of commercial interest, of one of which you have been good enough to supply the Commission with a copy?—Yes.

7230. I understand that you are also a lecturer in the University of Calcutta?—Yes.

7231. You have come here to-day to assist us on the matters of our reference and you have let us have a very full memorandum.* I will ask you a few questions on your memorandum to elucidate points which appear to need elucidation. In the first place, you adopt the classification, which is so commonly adopted for the purposes of considering the interests which result from currency movements, of producers and consumers. Is that in your opinion a scientific classification for economic purposes?—My idea is that these are the two headings under which the currency interests are discussed generally, and the gold exchange standard system divides the main interests under the two heads. Producers consider that a lower rate of exchange is advantageous to them; consumers consider that when there are high prices, a higher exchange would check the rise in prices further.

7232. Do not let me take you too far all at once. What I would suggest is that in looking for a scientific classification one should classify the community rather into categories which are capable of more definite use in analysis, such as debtors and creditors, buyers and sellers, each of which represents a definite contractual relation, but that the interests summarised in the word " producer " are so many and varied, as in the case of the consumer, that it hardly assists you to use those classifications in a scientific analysis. Do you agree with that?—I do admit that your suggestion is scientific, but I follow the usual procedure that is adopted and that will enable me to discuss the usual difficulties of the gold exchange standard.

7233. It is undoubtedly the usual procedure, but it occurs to me that one ought to try and improve on that procedure. You emphasize in a most interesting manner throughout your memorandum the necessity for considering this question from the point of view of credit and banking as well as from the point of view of currency, pure and simple. That is a matter to which you have given particular attention?—And I am of opinion that unless banking interests also are understood and unless the Central Bank is in a position to control the currency system, it would not be possible to have a thoroughly organized currency system satisfying all interests.

7234. Could you assist the Commission on a matter not foreign to their inquiry, though possibly remote, and that is, what practical measures can be taken to improve banking facilities in India and to increase the use of banks amongst the people?—The improvement of the banking system will first lead to the increase of capital and the increase of cash reserves on the part of Banks will enable them to increase the credits that they can dole out to industries.

7235. We may agree upon the consequences of a progressive increase in banking facilities but my question is rather by what means should those banking facilities be increased?—By asking the indigenous bankers to become full-fledged bankers undertaking deposits, and if they would also permit the people to make use of their facilities for remittance purposes, etc., and if they become closely interwoven in the banking system of the country by getting affiliated to the district branches of the Imperial Bank and become members of the district boards of the Bank, facilities for remittance, etc., would be increased to a great extent, and the very fact that they would be increasing the deposits would enable them to undertake remittance facilities on a large scale. This they are not in a position at present to do. They depend upon the Imperial Bank's own facilities for undertaking remittance business.

7236. Is it essentially necessary, in order to increase the use of banks amongst the people, to promote confidence in the stability of banks?—I have not quite followed your question.

7237. Can you hear it?—Yes.

7238. In order that people may freely use banks, they must have confidence in them, must they not?—Yes.

7239. Is it, therefore, one of the first important things to promote confidence that banks are stable?—I quite agree.

7240. Do you consider that, for that purpose, any further laws are required in India as to the regulation of banks?—You are driving me to the point of banking legislation?

7241. Yes?—I think the depositors' interests in our country can be secured by a certain amount of banking legislation. Depositors' interests can be secured to a certain extent by banking legislation, i.e., by making it criminal on the part of directors to mismanage funds, the depositors, etc., would be in a position to have better confidence in the management, and if there are certain laws as regards the regulation of the reserve, as regards the paying of dividends, and if the other suggestions in my chapter on banking legislation are followed, I think that would conduce towards increasing confidence on the part of the public. It is given in the chapter on Indian Joint Stock Companies, suggestions for banking legislation, page 97.

7242. The recommendations which you would make as to the making of the banking law more stringent are set out in this passage in your work, " Present Day Banking in India "?—Yes.

7243. Now let me come to another point in your memorandum. You refer in your introductory paragraph to the great expansion of credit machinery in the 19th century in Europe?—In England especially where there is industrial revolution.

7244. To what do you ascribe that great expansion in England?—Development of banking and the ability to develop the cheque system.

* Appendix No. 35.

7245. But that was rather a consequence than a cause, was it not, of the expansion of the banking machinery? Has it occurred to you to ask what the cause has been in England and Western Europe of the growth of the banking habit in the people?—That has increased as a result of the industrial expansion. Their increased finance and their ability to command so much deposit, these two factors are responsible. Banking capital increased and they began to provide further capital to industries. It is a simultaneous growth.

7246. May I make a little comparison between English conditions and Indian. The basis of the banking habit is, first of all, the thrifty, saving nature of a population?—Yes, certainly I agree.

7247. The people of England are thrifty and so are the people of India, are they not? The Indian people as a whole are a thrifty, saving people?—I do not think that the majority of the people are in a position to save. Those who are in a position to save, those who are educated and are in a position to save have contracted the banking habit to a certain extent of late, i.e., in the 20th century. But before that, they had no confidence in the banking system.

7248. That is different. I am thinking now of their mental habit. I should gather from your answer that, when they can save, they are willing to do so?—Those sections of the population who are able to save.

7249. One might say, might one not, that, in the second place, the banking habit in England and Western Europe was based upon security, and, in the third place, external security?—Yes.

7250. How do you compare the state of Western Europe with that of India in that respect, in view of the long history of India through past centuries?—My point here is that at that time when industries began to expand, banking mechanism also expanded in England. In our case, coming to India, although industrial expansion has taken place, there is not much of banking development, specially industrial banking development in our country.

7251. Would you agree that, owing to the long troubled history of India in past centuries, the people of India have not yet learnt the same complete confidence in the security of their country as regards foreign dangers that the people of England have learnt, and that this has an effect upon the willingness of the people to trust their money out of their own hands?—That had been he case in Englnad. But coming to our country, the fact that there had been unsettled nature specially in the later half of the 19th century is one of the causes why there had not been banking development in our country. In addition to that, there is poverty and it is this poverty that has not enabled the people to save a large amount and deposit it.

7252. I was just trying to see what the differences were which accounted for the expansion of banks in one place and not in the other?—Yes, I quite agree.

7253. Now let me take another circumstance. The banking habit in England and Western Europe largely depends, you would no doubt agree, upon the strength of the rule of law in those countries and the confidence in the complete sanctity of contracts. How would that be as regards India, because it suggests itself that, owing to the troubled history of the country in past centuries, the uninstructed have not yet learnt to have so much confidence in the rule of law or to trust to the enforcement of a contract. Does that affect progress in this direction in India?—I do not deny that. But there are other contributory causes that lead to the inadequacy of banking development in our country.

7254. Another cause which suggests itself that must affect the banking habit in any country is confidence in the stability of the value of the internal currency. How, in your opinion, has this question affected the growth of the banking habit in India?—I think I have stated that in the introduction itself, the changing value of the currency system has been leading to the later development of banking in this country. I referred to that in the introduction to the first edition.

7255. There was a substantial period before the war when the rupee remained stable in relation to gold round about 1s. 4d. Do statistics show a substantial increase in the use of banks during that period?—We had rupee stability round the 1s. 4d. rate from 1892 downwards to 1913 and 1914. During this time we had increased banking habit on the part of the people and but for the unfortunate failures in the case of the Punjab Banks it would have still further increased. But with the failure of the banks, people lost confidence and although there was stability in the rupee in the early part of the 20th century, it was the fact of the bad management of some of the swadeshi banks that dissuaded a large part of our people from depositing the little that they had.

7256. But for these unfortunate incidents, due possibly to failure to impose proper regulations upon banking, you would have expected to see during that period of the stability of the rupee a further extension of the use of banks?—Yes; there would have been further expansion of the use of banks. If there had been banking legislation protecting the interests of the depositors at that time.

7257. From the latter part of the second introductory paragraph, commencing from the words "of late," I gather it is your view that, if the exchange be stabilised in relation to gold, internal prices will automatically follow world gold prices?—Yes, that is my opinion.

7258. Is that true, or is it not equally the case whether the exchange be stabilised on a gold exchange standard or on a full gold standard?—A full gold standard system would enable us to follow the world system. It will give full play for the influence of world prices in our country. Now under gold exchange standard although we have stability, what happens under it is that the prices in our country tend to rise in advance of the prices prevailing in other countries. If we take the history of 1913, our price level has been higher than the price level in Europe or United States of America, which were gold standard countries. Our prices ought to have been following the prices of the gold standard countries; but still our Indian price level has been higher than the price level in Europe or the United States of America. So under the gold exchange standard system our Indian price level is bound to be higher because there is an export trade balance in our favour and it means automatically the injection of more rupees into our currency.

7259. Will you explain why, on a gold exchange standard, when the rupee is stabilised in relation to gold, internal gold prices will not move automatically in adjustment with world gold prices. If I may explain my question, you refer to the experience of India before the War. There one who was meeting your point would say that the Indian standard then was not a gold exchange standard; it was imperfect; there was no provision for the automatic contraction of the currency. I am asking you now about a true gold exchange standard, and the question is why upon such a standard, once the rupee is stabilised in relation to gold, there should be any tendency to departure from world gold prices in Indian prices greater than in the case of the full gold standard?—Under the scientific gold exchange standard system it is possible to arrange for the automatic contraction of currency, but in the case of our country the habits of our people are of this nature, that is, if prices in imports rise the people will not be in a position to consume the imported goods and the rupees that have once gone back into the country will not be in a position to automatically return and the scientific nature of the exchange standard, so far as contraction is concerned, is likely to break down because our people are apt to hoard rupees and when they find the price of imports rising they will not be in a position automatically to buy the imported goods and the rupees will remain in the pockets of the peasants.

7260. If they do not use their rupees they cannot buy, and if they cannot buy then importers will not import, and if importers will not import then there is no strain upon the exchange; so why should the system break down under these conditions?—Under the gold exchange standard there might be automatic contraction, at least under the scientific gold exchange standard. Now the habits of our people are such that they would automatically withhold buying commodities if the prices rise. If they find that the price level is rising to a great extent they would not be in a position to buy the imported goods; so there is no question of the automatic nature of the gold exchange standard system in working.

7261. You proceed to describe various features of the present currency situation. In paragraph (*e*) you say "The expansion and contraction of currency can be brought about by the discretion of the Government alone; the banks' power in this matter is very limited." That is saying,, is it not, in other words that, under the present arrangements, there is in fact not a true gold exchange standard?—Yes.

7262. At the close of the paragraphyou say: "Thus the Government is at present managing the system according to their ideals." Supposing we had a full gold standard, there would, would there not, still be a necessity to make some provision for seasonal expansion of the currency?—Yes, certainly provision for emergency currency would arise under certain conditions; but the door is open for the free coming in of gold and notes issued. If the note issue itself is elastic there might be no special provision for emergency currency.

7263. I think you yourself say very truly somewhere in your memorandum that, under a gold standard, the import of gold does not come until it is too late to be of use to increase monetary facilities to meet the seasonal demand?—Under the gold exchange standard I have stated.

7264. That is a feature of any and every currency system, that it requires some special provision for seasonal expansion?—Yes.

7265. Such provisions for seasonal expansion must always entail, must they not, some degree of management and control by a currency authority?—If the banker were to be the controlling authority it would be done according to the interests of trade and the interests of the public; so if the Government were not to manage the system but to leave it to the management of the banks there would automatically be the necessary expansion in the currency system.

7266. Your objection to the degree of management involved under those conditions is removed if it be a Central Bank that is controlling the matter?—Essentially a gold standard means a gold standard under the management of the Central Bank.

7267. I am not sure that you have quite followed my question. Your objection to the degree of management involved in the control of a seasonal expansion is removed if it be a Bank that is in control and not the Government? I rather gathered that from your previous answer?—My point is that under a banking standard it is the banks that control the gold standard system and they provide the required elasticity to the currency system. Now under the gold exchange standard it is left to the option of the Government to increase the expansion of currency as it is at present being managed since 1924. You have the banker, *i.e.*, the Imperial Bank can bring about a certain amount of elasticity according to the provisions of the Paper Currency Amendment Act, but that is not sufficient, the 12 crore limit is not considered sufficient.

7268. Might it not be said that there is no reason why you should not put the control of a gold exchange standard into the hands of the Central Bank by transferring to the Bank control of the note issue and of the reserves against that issue, and imposing upon the Bank the obligation to buy and sell international currency at the gold points. What effect would such a transfer of control from Government to Bank have upon your opinion as regards the undesirability of any factor of management involved in a gold exchange standard?—That is you want to ask me my opinion about a scientific gold exchange standard system?

7269. What I want to know is whether your objection to the gold exchange standard on the ground that it can be manipulated is affected if the control of that standard be in the hands of a Central Bank and not of the Government?—It cannot be manipulated against the interests of the people if it is in the hands of the bankers.

7270. I follow then that your objection to the system on that ground would disappear?—Yes.

7271. You say in (*g*) "Tho use of the token rupee with its low intrinsic value combined with other causes has led to the hoarding of wealth which ought to have been released as industrial capital." What, in your opinion, if any, is the progress which is being made under existing conditions by the people in learning to make better use of their savings than to employ them in hoards? Do you think they are learning now gradually?—Yes they are learning under the influence of certain of our industrialists to invest their savings as industrial capital.

7272. I come now to your paragraph 3, "The Intermingling of Exchange problems with Currency." A third of the way down you say, "In the case of India the Government has undertaken the management of the exchange value of the currency, considering it to be more important that the stability of the commodity value of the rupee for internal purposes." I imagine that it would be said on behalf of the Government that they had undertaken this with the object of stabilising the gold value of the rupee?—This policy of stabilising the gold value of the rupee, that is attaining stability in the price level, has been the ideal since 1924. In pre-war years what they thought of was stability of the exchange value of currency and the price level specially had not been the chief consideration of Government. That refers to pre-war years. Since 1924 they have been pursuing this ideal of stability in the price level.

7273. But we have already agreed, have we not, that if you stabilise the gold value of the rupee by any means, you then link internal prices to world gold prices?—Yes.

7274. Is not, therefore, stabilising the gold value of the rupee the best, and indeed the only effective, measure that can be taken to stabilise internal prices? —But stability of exchange also is a criterion in managing the currency system. If stability of internal prices is obtained by raising the exchange value, as it has been done now, the people object to raising the exchange. We have obtained stability of gold prices in our country by raising exchange and by the automatic contraction of the currency, and this would not be liked by the industrialists and traders.

7275. I gather that you are not yourself in favour of any attempt to stabilise internal prices in distinction from world gold prices by the adoption of such a policy as that which is associated with the name of Mr. Maynard Keynes?—Yes; that system of management would not be possible in the present state of the banking system in our country.

7276. That being so, the greatest measure of stability for internal prices that can be attained is to link them to world gold prices, is it not?—Yes.

7277. In order to effect that, exchange must be stabilised at some rate, must it not?—Yes.

7278. Is it your contention that the rate was raised to 1s. 6d. by a definite manipulation on the part of the currency authority in India?—That at least is the prevalent opinion and I concur with tho prevalent opinion.

7279. Let me put to you another point of view that has been put to us in evidence, that exchange was rising under natural causes, and that all that was done by the currency authority was to choose what seemed a convenient moment to intervene and to commence an effort to stabilise the rupee?—But they lost the opportunity of stabilising it at the old rate, which is understood to be the rate which ought to prevail. When the people asked tho Government to stabilise

at 1s. 4d. the Government said that it was not their policy to stabilise it at that rate.

7280. On this matter you do not, I understand, disagree that it was necessary for the currency authority to intervene at some point in order to achieve stability?—No.

7281. From 1900 to 1913 you say India enjoyed stability of exchange, barring 1907 and 1908. But, you say, this has been accomplished by placing more rupees and inflating the Indian price level at the ports to the level prevalent in England. Now, might it not be said that what was happening was that the gold value of the rupee was stable, and was being kept stable, and that the result of that was quite automatically to keep Indian gold prices in adjustment with world gold prices, and that, so far from there being any inflation, what you were seeing was the natural adjustment of Indian internal prices to the movement of world prices necessitated by the stable gold value of the rupee?—If gold had flowed into this country from England there would have been a contraction of gold in England and on account of that contraction in England there would have been a resultant change of prices in England. That change was not to be had on account of the gold exchange standard system.

7282. I will ask you a question on that later on, if I may, because it comes more relevantly later on. It has been said that, owing to her geographical and historical position, prices in India had remained, during the end of the nineteenth and the beginning of the twentieth century, with a lag behind those of the prices of the world, and what we were seeing during this period was Indian prices overtaking this lag as India was brought into closer communication with the rest of the world. What is your opinion on that point of view?—That is one cause of the rise in prices in our country.

7283. I am not quite sure that I follow your argument at the end of this paragraph. Is it the case that this argument here means that you advocate that exchange should be left to look after itself?—Certainly.

7284. Without any control by any currency authority?—Under the gold standard system exchange will have its own automatic pars and it will be linked with the gold par at the export and import points. So if we have a gold standard it will automatically look after itself and there will be no question of exchange being stabilised under the gold standard system. It will automatically get itself linked to the gold points.

7285. What is to happen pending the introduction of the full gold standard?—In the interregnum there should be some measures for the stabilisation of exchange.

7286. I had misunderstood you: you do not mean that, pending the introduction of the full gold standard, you would let exchange look after itself?—I would not.

7287. You say that stability of exchange is important only from the standpoint of the Government. Is that really so? Is it not also of importance from the point of view of the commercial community, and, through them, of the growers of produce? Can external trade flourish with a fluctuating exchange?—Stability of exchange for trade purposes is an important facility, but not an absolute condition.

7288. Then I may mentally make that little addition to your statement here that stability of exchange is important only from the standpoint of the Government?—Yes.

7289. You proceed to analyse the defects of the gold exchange standard. You say in paragraph 1 that the gold exchange standard has thus an inherent tendency to inflate the price level. From your previous answers I gather that I should read there thus: "the gold exchange standard, as it was in force in India before the war, had such a tendency"?—Yes.

7290. Has a perfected gold exchange standard necessarily such a tendency?—A defective gold exchange standard has this tendency, that is what I say.

7291. By a perfected gold exchange standard I mean one where the reserves are unified and there is an established legal relation between the reserves and the whole of the outstanding token currency. That is one essential feature. The other essential feature is that the currency authority undertakes a legal obligation both to buy and to sell international currency against the local currency at the upper and lower gold points. Considering such a standard, has such a standard any inherent tendency to inflate the price level?—No.

7292. Secondly, you say the gold exchange standard leads to an accumulation of reserves in a foreign centre. The question which suggests itself is whether that is a necessary feature of a gold exchange standard or whether under a gold exchange standard your reserves might not be equally held in India?—They might be held in India in gold but they must be held in readiness to liquidate our national indebtedness at any time. Promptness is necessary; it is this promptness which has forced the Government to keep it in foreign centres so far. It is one of the chief reasons why we supported the gold exchange standard because the reserves could be held in a foreign centre.

7293. If under your gold exchange standard you kept a gold reserve in India, as regards promptness it would be precisely on the same footing as a full gold standard?—But the experience of 1907-8 was against promptness. That is why in 1914 the Chamberlain Commission had to say that this selling of the reverse councils at this lower limit was a necessity.

7294. You see what I am doing now is trying to see how these disadvantages discriminate between a true gold exchange standard and a full gold standard, and the question is this—it is desirable that your reserves should be promptly available?—Yes.

7295. Let me correct that. It is desirable that your means of international payment should be promptly available? If under a gold exchange standard you hold your gold reserves in India, as regards promptness are you not in precisely the same condition as you are under the full gold standard, if the gold has to be exported?—Yes.

7296. We have dealt with the similarity of the systems as regards the expansion of currency taking place after the event, that is No. 4, and we have dealt with No. 5 as regards the possibility of making a gold exchange standard automatic. You say at the end of paragraph 6:—"The price level of England suffers no change on the sale of Councils, as gold has not left its shores, but is allowed to lie in the hands of the British bankers." Could that difficulty be met, or could it not, if under those conditions gold were always to be earmarked in England against the Indian reserve for the Indian reserve?—They are added to the Secretary of State's balances, and these are kept deposited in the hands of the bankers, or in the Imperial bank now. If they are earmarked in the Imperial Bank there would not be this defect.

7297. No. 7—"It impedes the people from obtaining gold to the full extent of the favourable balance of accounts." Is the ownership of gold in itself an advantage, or is it only an advantage in the purposes to which the gold can be put?—Yes, if you can make use of the gold and buy commodities from outside, it will be of much advantage, but when we sell commodities, gold should be coming into the country. Under the gold exchange standard system we are taking our return in silver and not in gold. Under the gold standard system we will be taking our return for commodities in gold. Of course, commodities should pay for commodities in the end.

7298. But you are not proceeding upon the view that the ownership of gold is an end in itself?—No, gold is not an end in itself. Gold is a means to an end.

7299. You recognise that the habit of mind in India that gold is an end in itself is one of the great difficulties which we encounter, and, indeed, one of the evils for which we seek a remedy?—As the people are not in a position to obtain the gold whenever they require it, they think that the acquired gold should not be parted with. So they are keeping it as an end

in itself. If they were to obtain the gold whenever they required it, they would be willing to part with it. Then they would not consider gold as an end in itself.

7300. That is a view which has been put before the Commission with much force. Now, paragraph 8:— "The locking up of the reserves in separate vaults for different objects only tends to withdraw these much-needed funds from the capital market of the country." Could that not be met, under such a perfected gold exchange standard as that to which I have referred, by the unification of the two reserves and placing them in the hands of a central bank? Would that overcome this disadvantage?—If that is forthcoming, if there is a unification of reserves in the country, it would be an advantage. Under the gold exchange standard system there is no such unification.

7301. Is that an essential feature of the gold exchange standard system? Is it not possible under an exchange standard to unify the reserves, reckoning into account as a liability against the reserves some estimated amount in respect of the possible contractability of the rupee circulation outstanding?—After the war the theory was that all the reserves had separate functions to perform, and that in the event of an unfavourable exchange they had a desire to unify in respect of exchange. Until then they had considered each reserve had a separate function to perform and utilised that reserve for that essential purpose. If there is a unification of reserves, it would be possible for the expansion of credit in the country. That is the meaning.

7302. We know, do we not, that before the war practice frequently showed the untenability of that theory of the separate functions of the reserves, because the gold standard reserve did, in fact, serve the purpose to some extent as a support for the note issue, and the paper currency reserve did, in fact, to some extent serve the purpose of a support for exchange?—Yes.

7303. The practice was too hard for the theory. You go on to say in No. 9: "It renders possible the spiriting away of reserves from the country by the sale of unlimited councils." Would that disadvantage be eliminated if the central bank were in charge of the currency and had imposed upon it this legal obligation to buy and sell at the upper and lower gold point respectively?—**Yes.**

7304. Then No. 11: "The Gold Exchange Standard system," you say, "is after all a half-way ideal." Is that quite the common view in Europe at the present time, that it is only a half-way ideal? Is there not some evidence that it is now beginning to be regarded as the permanent system?—In the war-worn countries, of course, whose finances have been adversely affected by the war, this would be the case.

7305. What about our system in Great Britain? Is that not, in effect, a gold exchange standard?—Yes, but they have established the principle of the gold standard, I think. It is not an effective gold standard, but they have established the principle of the gold standard.

7306. The standard established in practice is, in substance, Ricardo's standard, is it not?—Yes.

7307. Now let us take No. (1) in the following sequence of paragraphs. You say: "The gold exchange standard is not economical as it necessitates the laying down of reserves." You do not get rid of the necessity for reserves of some sort under a full gold standard, do you? Your criticism here of the exchange standard is that it is not economical as it necessitates the laying down of reserves, but under a full gold standard you will still have to keep reserves of some sort, will you not?—Yes, we have to keep the reserves, but they will not be misused. The contention is that the reserves are being misused.

7308. If it were possible to have an exchange standard which was automatic and knave-proof, this objection would fall to the ground?—Yes.

7309. After a discussion of alternative standards, which is of interest, we come to your gold standard system in Section VI. You say that the gold standard system would tend towards an unlocking of the small hoards. Would you expand that and tell us in what way that effect will be brought about?—The very fact that gold would always be available means that gold would be looked upon as industrial capital. It would not be held as jewellery or other ornaments. Hanging them on the ankles of their daughters or their wives, and suchlike practices would be given up, and only when gold is required for certain social and religious purposes, as it is being used at these functions, would gold be held till that function arrives.

7310. Would you look upon this as an immediate consequence, or would it take time for this change to be brought about?—It will take some time to educate the people to give up this habit.

7311. During that transitional period, what, in your opinion, would be the effect of making gold freely available? Would it lead at first, or would it not, to an increase in the hoarding of gold?—There would not be an increase in the habit of hoarding; generally that will tend to be less, by breaking them into fragments and their being thus utilised for industrial capital. There can be no further increase of hoarding, especially if the coins, etc., are immediately convertible into gold bullion as required.

7312. You would like, then, to see an immediate beginning in the change of the age-old habit of the Indian people to hoard gold when they can get it?—They would hoard gold when they could get it, provided there is no assurance that they would get it when required. If there is an assurance that they would get gold, I think there would not be hoarding.

7313. You think that hoarding would at once begin to diminish and that there would be no initial draining off into hoards of the new gold made available as currency?—The new gold currency that might be placed would certainly circulate in the bigger cities where the coin would suit the needs of the people; if they were to fall into the hands of the poorer people in the interior of the country, they would not be in a position to give back the coins.

7314. Up-country you would expect some of the gold to be held up?—For a little while.

7315. Now we come to the question of the effect of this policy upon the general level of prices in the world. Have you been able to form any estimate of the amount of gold which it would be necessary to add to India's supplies in order to introduce the policy?—If we take the last year's experience—we had the Controller of Currency's Report just published, and we find something to the effect of 75 millions had been added as a matter of fact to India's requirements of gold, but that is a fitful thing and it is not possible to make any accurate guess as regards India's requirements of gold. A favourable trade balance is the thing on which we can base our estimates.

7316. What we have to consider is, is it not, perhaps capable of more accurate estimate? You propose that the silver rupee should be declared a token coin and limited legal tender?—Yes.

7317. But I understand you are of the opinion expressed in paragraph 7 that it is not essential to undertake the conversion of the existing stock of rupees into the standard gold coin to be adopted. Do you not think that there might be just cause for complaint among those who hold rupees, for instance, in hoards, if you diminished their value by declaring them limited legal tender without, in the first place, giving them an opportunity of exchanging them for gold?—I have made provision for the gradual demonetization; I have stated elsewhere that there should be a gradual delimitation of the legal tender quality—for instance, you might begin with Rs. 1,000, then Rs. 750, then Rs. 500, then Rs. 100. There would be opportunity for these people to convert them.

7318. Will there be an opportunity for them, however gradual you make the process, to convert them without loss, because as soon as it is known that the rupee is no longer to be legal tender, even though the process is a gradual one, will it be possible for them to get rid of their rupees out of their hoards without a substantial loss?—If there is no further addition to the rupees, the limited stock will command a value.

There is no reason why there should be a fall in the value.

7319. To whom will they get rid of them?—They have got a limited legal tender quality and they will be submitted to Government in payment of their dues. Especially the poorer people will be submitting them to the railways and they might be submitting them in small quantities to the offices.

7320. But, *ex hypothesi*, since these rupees are in hoards they are not required for circulation. There are enough rupees in circulation for the payments of the country without them. How can they get rid of their hoards in the course of ordinary payments?—You mean to say that the rupee stock in circulation is sufficient to meet the needs of the people? If that were the case, they would not be losers at all. If the rupee were to circulate, there would be no question of loss if the rupee were declared legal tender.

7321. To understand the process, will you tell us, in your opinion, what the holder of a rupee hoard will do with his rupees? If he uses them for his ordinary payments, then he has his ordinary rupees left on his hands. Where would he go?—You mean how he would dispose of his hoards?

7322. I am thinking of one who holds a substantial hoard of rupees?—If there were not the question of conversion, he would be a loser. But then he can gradually get rid of it by means of the fact that they are limited legal tender placed in the hands of people, gradually.

7323. It seems as if, by varying the process, you would only make it a gradual loss instead of an immediate loss. Might not the complaint against a gradual loss be just as legitimate as against an immediate loss in the case of the big rupee hoards?—But when the gold standard is established.

7324. You mean that, during the interregnum, you would only recognize a limited right to convert according to the option of the Government or the currency authority?—Yes.

7325. But ultimately you would accept for the currency authority the obligation to convert rupees into gold?—Yes.

7326. That is one element that we have to consider in considering the amount of gold which India would require. The other element is, is it not, the amount of gold which would be required for active circulation? In considering those two things, have you been able to form any estimate as to the amount of gold that would be required altogether to put the policy into force? The question is, what additional amount of gold India would require for those two purposes, for circulation and for the ultimate conversion of the silver hoards?—That depends upon the present estimate of the silver hoards in the country. The people think that say between 200 to 300 crores are roughly in circulation, and from the year 1835 one authority says that about 647 crores of rupees have been minted, a large part of which might have been melted, but still about 200 or 300 crores may be presented for conversion into gold; and that depends upon the ratio which would be fixed for the purpose of conversion. If we fix 1s. 4d. somewhat less gold would be required; if you fix 1s. 6d. a larger stock of gold would be required for the purpose of the conversion of rupees into gold.

7327. Have these considerations enabled you to arrive at any figure as to the amount of gold that would be required?—Generally it is a question of guess work, and it is not possible to estimate what would be the exact amount of gold required for undertaking the full conversion. I should say, 20 crores to 30 crores.

7328. Admittedly any such estimate contains many elements of hypothesis as to the amount of rupees in hoards and so on?—Yes.

7329. Nevertheless it is a very material consideration when one is confronting the practical introduction of the standard, is it not?—But if a country has to come round to a gold standard, it has to undertake a lot of suffering in this respect.

7330. Let me ask you to accept for the purpose of our discussion a figure which has been supported before us by evidence, that is, that the amount of India's stock of gold for the purpose of introducing this system would have to be increased by about 100 million sterling. I am not asking you to accept the figure; I am only asking you to accept it for the purposes of our discussion. In section VI you say: "India's going over to the gold standard system would tend to balance and augment demand and keep up the level of the value of gold." Have you been able to satisfy yourself, in view of the outlook for the world's supply of and demand for gold, that such an additional requirement as that to which I have referred would have no more effect than to keep up the level of gold prices, and that it would not have an effect in disturbing gold prices to a very appreciable extent?—Even supposing India disturbs the level, I think India has the right; and when they demonetised silver they did not consult the interests of India. Similarly we need not take into account the other disturbances. India considers her own interests.

7331. Freely recognising that India has the right to take any action which she can take, and looking at it entirely from the point of view of Indian interests, have you been able to satisfy yourself that the additional requirements of India for gold might not produce such a disturbance of general gold prices as would have a very harmful effect upon India's own interests?—I don't think so. If you take real favourable balance of trade into consideration, there would not be such a wide prejudice affecting the price level.

7332. Have you considered the various estimates which have been made by competent authorities as regards the outlook of world's gold prices in relation to the world's demand for gold?—I have seen Dr. Gregory's estimate and also the estimate published in Economics of the Gold Standard by Mr. Jack. Barring these, I have not seen any other estimate as regards the future supply of world's gold and the future demand for it. These are the two estimates that I have seen.

7333. What do you deduce from those estimates?—You mean the conclusion that I arrived at from a study of the estimates?

7334. Yes?—Even supposing that gold would not be sufficient, there are several means of economising the gold store so that it might be sufficient to the interests of the country. If gold were to be produced in such large quantities there are measures for limiting the stock of gold so that it does not affect the price level.

7335. Those are the measures to be taken by other nations?—But they would have to consider the interests of India. I think international discussion is better than each country trying to base its own discussions on the value of gold.

7336. Might not a critic of your proposals say that that would mean that, as a consequence of this action, other nations were adopting a more economic policy, while India was adopting a more expensive policy?—That paves the way to the economical system. First of all the Indian people will handle the gold coin and later on when the gold note is placed in their hands, they will have faith in the gold standard system. The system of an economical gold standard cannot otherwise be understood.

7337. But, in the meanwhile, your critic might continue: Is this not placing India at a disadvantage if she is adopting a more expensive system, while her rivals and competitors in trade are adopting a more economic one?—If we do not adopt the gold standard, there is the question of hoarding of our money and no industrial development takes place. But if we adopt the gold standard, it is quite possible, although a certain amount of capital might be locked up for the purposes of currency, still industrial development will be taking place, so that ultimately India's interests will not suffer.

7338. I understand it is your opinion that the end would justify the means?—Yes.

7339. Referring once more to the various estimates, let me refer you to estimates made by the Harvard Economic Service, by Sir James Wilson, and by Mr. Joseph Kitchin in addition to those made by Mr. Gregory?—I have there referred to Jack's Economics of Gold Standard.

7340. Would you take it from me, for the purpose of our discussion, that these estimates as to what is to happen to gold prices are extremely variable, mostly estimating a fall in prices in the course of the next five years, but all arriving at different results as to what the tendency is going to be five years hence, whether to rise or to fall. Now if that be so, would not that teach us at any rate to be extremely cautious in assuming that the world's supply of gold is going to be equal to the world's demand for gold?—Then there will be expedients for the economising of gold. If the world's demand is greater than the world's supply, then there will be expedients for economising the gold store on the part of the banking system.

7341. If India, under those circumstances, is not economising but making this great additional demand for gold, ought we not to look upon it as at any rate a possibility that this demand might have the effect of a great upset in world gold prices?—Provided the world's demand is greater and India goes on adding to the demand, and if the world's supply is quite insufficient, then there might be this upsetting.

7342. At any rate we recognise that this is a question which has an aspect which concerns the interests of India, and that it is not a question which has to be considered only from the aspect of the interests of the world at large?—I first of all consider Indian interests and all calculations should be based on India's interests. Provided they do not prejudice international interests to a certain extent, they should be adopted. Even in case international interests should be prejudiced, I think that India should stick to her own interests.

7343. The immediate question is this—that we have, I think, arrived at the point that Indian interests are involved in avoiding any great disturbances of the world's gold prices just as much as those of any other country?—Yes.

7344. Just a few final questions. You expressly state you are in favour of handing over the note issue to the Imperial Bank and that the paper currency reserve should be amalgamated with the bank reserve. I do not understand what you mean by the paper currency reserve being amalgamated with the bank reserve. I understand you are against the separation of the note issue department from the banking department? Is that the meaning of the recommendation?—Amalgamated in the sense that it should be handed over, not in the sense that there will be two departments practically in the same hands. I used the word "amalgamated" rather loosely. I withdraw that word and substitute "handed over."

7345. For the sake of unity of control and the facilitation of the supply of credit to the trade of the country, you desire to see the control of the currency reserves and the banking reserves of the country in the same hands?—Yes.

7346. Then as to the ratio, you say: "the old rate of Rs. 15 to the sovereign need not necessarily be accepted. The recent rise in the gold value of the rupee should not be unnecessarily lost sight of or given up for the old rate"?—Yes.

7347. Your final recommendation is that the financial policy of the Government of India should rest solely in the hands of the Government of India?—Yes.

7348. (*Mr. Preston.*) In section VII, second paragraph, you say, "Secondly, Mohurs and half-mohurs of the same weight and fineness as the British sovereigns and half sovereigns should be minted and declared unlimited legal tender;" and then you go on to say, "The increase of population and expansion of the business needs of the community require an annual addition of stock to currency and this addition in the future would have to be made in gold." Is it your intention to have a gold coin of the mohur denomination introduced at some period into India?—That is gold coins of the denomination of mohurs and half-mohurs should be introduced.

7349. If you turn to section VI, you say, "The matter would have been simple if the gold unit were to be a suitable medium for the country but considering the low level of our incomes and the low cost of our basic requirements no gold coin can afford to oust the present silver rupee from circulation." This is rather contradictory to your first statement?—I will explain my inconsistency thus. There are certain sections of the population to whom the gold coin would eminently be suitable for the purpose of circulation. There are, say, 90 per cent. of the population to whom the continuation of the rupee would be a sort of advantage. But gold coins should be introduced. Otherwise people would not be in a position to understand that the gold coin is really in operation. Gold coin is necessary for the purpose of the people coming into contact with it. They will handle the coin and there wlll be the psychological confidence in the people if they begin to handle gold coins. They would think that they are under the gold standard system. Otherwise, if they are not allowed to handle them, they think that they practically are not in the gold standard system. So those sections of the population who have got riches enough and who can use gold coins, for them the gold coin will be a suitable medium and for this purpose a limited stock of gold coins can be minted. In that way it will be a small part of the circulation of our country, the gold coin.

7350. Then accepting the statement that two-thirds of the people of this land are agriculturists who would not be able to use the gold coin, therefore these gold coins you intend to bring into being will be more from a matter of form than for general utility. I will go back to another paragraph just above which is on the same subject. You say "The demand in India is more for the metal gold than for the gold coin, and hence these would find their way to the melting pot or fall into the hands of the bullion dealers." You mean that they would ultimately pour into the hands of the bullion dealers or probably be hoarded?—Yes. I beg your pardon. There is another statement which says that the education of the people will go on at the same time as the standard of living increases and banking is developed by the attempts made to introduce the gold standard.

7351. That will be the result of education ultimately you mean?—My meaning is that provided this happens there will be some possibility for the gold coin to circulate and the present tendency of the gold coin to disappear will be defeated. In the meantime if it is issued in very large quantities beyond what the 10 per cent. of the population can circulate the gold coins will go into the melting pot.

7352. Now might I take you back just a little more to section III, in connection with a reply you gave to the Chairman. I think the reply was that stability of exchange was most important from the standpoint of Government, and you say here from the standpoint of obtaining capital the stability of exchange is not so important. I am just taking that as a statement. Will you not admit that one great incentive to bringing in foreign capital into any country and particularly into India which is so much in want of foreign capital is that you should have a stable rate of exchange? Let me put the case to you like this. Supposing money in London is 4 per cent. and there is plenty of money about; and money in this country in a tight season begining with this December is 8 per cent. and that 8 per cent. would go over a period of 6 months, therefore if you could get money in

London at 4 per cent. and bring it out to India at 8 per cent. there would be a clear profit of 4 per cent. to the gentleman bringing it out from home. But the man at home says "Why should I send my monoy out if I am going to lose in exchange. In other words, if you will guarantee me that I will not lose in exchange I will give you plenty of capital." You admit that? Then taking that and working from that basis would it not be a great advantage from the point of view of attracting capital to this country to have a stable rate of exchange?—Yes, I admit that foreign capital is absolutely essential to the work of development in this country, but my contention is that with the exception of floating capital no definite investment of foreign capital would be made in this country at present, and for a definite investment of foreign capital this question of the stability of the exchange would be taken into consideration.

7353. Now last year about this time one of the great difficulties in bringing foreign capital into this country was that if you brought capital into this country by trying to cover your forward exchange you lost sometimes as much as 3 per cent. which made the operation impossible, and that was due to the uncertainty surrounding the point as to what Govern-

supposing they were operating on behalf of Government, to deal with these requirements by public tender, or as they have been doing lately by the Imperial Bank purchasing in sterling.—By public tender would be better.

7359. Thank you. I think there is only one more point. This is where a correction is needed. You say "The gold standard reserve is the only reserve for expanding currency." You mean contracting, don't you? I think we should alter that.—Yes. The next sentence shows that I had practically the paper currency reserve in my mind.

7360. (*Sir Maneckji Dadabhoy.*) You have recommended the full gold standard and when that is brought into practice, of course, demonetisation of silver will take place, and you have recommended a gradual demonetisation of silver. Will you explain what you mean by gradual? How long will the process take?—Gradual demonetisation means gradual limitation of the legal tender. If I used the words "gradual demonetisation" I wish to withdraw that.

7361. But the silver which will come out in large bulk must suffer in its price. Have you any suggestion to make in that connection, how to avoid the loss?—There is the question of conversion when the

7370. I will not pursue this point further. In your opinion the gold exchange standard has contributed to keep up the internal prices at a higher level than in other countries, has it not?—Yes, that is the prevalent opinion.

7371. Do you think that a gold exchange standard reconstructed and removed of its present imperfections would help us in any way?—First of all the people have no confidence even in a perfected gold exchange standard system. It depends upon popular confidence. If there is no popular confidence in a currency system, it is difficult even for a scientifically adjusted standard to work successfully in operation. Just as politically dyarchy is not liked by the people, similarly the people do not have faith even in a so-called scientific gold exchange standard.

7372. Am I to understand that there is sentiment opposed to it?—Yes.

7373. You do not think there is anything intrinsically wrong with the system itself?—No, theoretically speaking, you have to admit that the ideal gold exchange standard system is very good machinery.

7374. In other words the result of your discussion is that you cannot devise a gold exchange standard which would be altogether knave-proof, is that so?—Do you mean to say that a scientific gold exchange standard could be knave-proof, is that your idea?

7375. Can you perfect the present gold exchange standard to a degree which will remove mismanagement and make it absolutely proof against all sorts of trickery or devices?—Theoretically speaking, it could be made.

7376. On what basis?—On the two ideas given to us by the Chairman, buying and selling of gold and the other idea that he gave us.

7377. Can any objection to the gold exchange standard, that it is a managed currency, be averted by the control of the whole system heing handed over to the bank and not left with Government?—If a contral bank were to undertake the management of the gold exchange standard system it will perpetuate the present position of the rupee, and the people would still be dissatisfied. What the people require is gold.

7378. You say that the people will be satisfied with nothing short of a full gold standard on account of their peculiar prejudices and habits, is that your idea?—Yes; that would be the trend of public opinion.

7379. (*Sir Maneckji Dadabhoy.*) Will this gold standard increase further the hoarding habits of the Indian people? What have you got to say to that?

7380. (*Chairman.*) The witness's reply to that was that he looked for an immediate effect upon the hoarding habits of the people, that gold might disappear when it went up-country, but not in the big towns, and that elsewhere he looked to the effect being immediate in tending to reduce the habit of hoarding?—The gold that goes up-country might be hoarded to some extent, but that which trickles to the up-country will be very little; so practically we can say that that should not stand in the way of a gold standard and a gold currency, or that gold hoarding would ultimately stand in the way.

7381. (*Sir Maneckji Dadabhoy.*) At an earlier stage of the examination, in answer to the Chairman, you said something about the depositors' interests not being watched by the banks: I put to you a specific question. Have you any reasons to say that the depositors' interests are not wholly safe in the hands of the Imperial Bank of India?—People are not dissatisfied with the management of the Imperial Bank; they are quite satisfied, and the interests of the depositors are quite safe.

7382. You think that the interests of the depositors in the hands of the Imperial Bank are quite safe and the people are quite satisfied?—Yes.

7383. There is no legitimate cause for any grievance on that point?—People have got no complaint on that score; their complaint is about Government handing over all their balances to the Bank free of interest.

7384. The people think it is objectionable for Government to hand over all the balances to the Bank without interest?—That is what the people say.

7385. Do you share that opinion yourself? I want your personal opinion?—Taking the low state of banking standard in our country, I think it is advisable on the part of the Government to part, say with one or two crores, to approved banks on first class securities if they are deposited with the Government. That has been practically the measure that was asked by Mr. Chuni Lal Saraya, and it has been repeated by Mr. Vidya Sagar Pandya before the Chamberlain Commission.

7386. Let us stick to the point. I only want a reply to my present query. You think Government is not acting safely in trusting their balances to the Imperial Bank?—It is not a question of safety at all; the people also want that the Government should help the better developed Indian banks by giving them free deposit of Government money.

7387. You mean to say that Government should lend not only to the Imperial Bank but to private banks as well?—Not to private banks, but to some of the important banks on approved securities.

7388. What do you mean by important banks?—Strong banks, like the Central Bank of India or the Bank of India; if they apply for loans on securities, they ought to be given money free of interest just as the Imperial Bank of India gets it.

7389. Do you know that the Imperial Bank of India renders service to Government in lieu of getting theso balances without interest?—Of course, it is rendering service; but the very fact that it is acting as Government's banker inspires confidence psychologically in the minds of the people and that is in itself a return; the bank gets more in the shape of deposits from the people.

7390. Is it not a fact that people in India are getting more accustomed to banking habits in the use of cheques, etc., especially in the bigger towns?—In the presidency towns I think there is to a certain extent circulation of cheques; when peoplo go to buy certain things from European firms there is no objection to accept a cheque; but if you go north of Bow Bazar and give a cheque for any purchase it is not freely accepted.

7391. But likewise no bank will accept your cheque immediately you give it unless they know something about you?—Suppose, I buy a shawl from Jaharlal Pannalal, if they are not in a position to accept my cheque for 30 or 40 rupees, it would be practically putting me to the inconvenience of hoarding this 30 or 40 rupees and taking it in my pocket in order to pay them. If, however, they are in a position to know that my cheque will be accepted by the Central Bank of India, they would be in a position to take it.

7392. Is that your explanation for this hoarding?—Not for hoarding; I am only saying that it is a question of lack of popularity of cheques amongst Indian firms.

7393. But have you not noticed that even in Indian firms these hundis are passed very freely nowadays and one bank gives it to another bank just as is done with cheques?—The question of banker trusting an indigenous banker or a bigger banker, that is established; but so far as an outsider, an ordinary individual is concerned, if he has got a bank account and if he gives a cheque, it is not likely to be accepted by Indian firms.

7394. (*Sir Reginald Mant.*) In section 3 of your memorandum you advance certain criticisms of the past currency policy of the Government of India and you suggest that they were wrong in aiming at stability of exchange rather than stability of internal prices.—The old ideal had been stability of exchange from the standpoint of obtaining capital and giving facilities by Government.

7395. Will you let me finish my question? You will grasp the point better. When you come to section 5 you suggest various possible means of producing stability of prices instead of stability of exchange, and you reject all those methods as impracticable in the present stato of banking in the country. And you conclude that the only possible system is one which secures stability of price by means of stability of exchange. How do you reconcile that conclusion with

your criticism of the past policy of the Government?—Stability of prices can be obtained by having stability of exchange. When stability of exchange was obtained by Government in the past, there ought also to have been stability of prices. The stability of exchange that is obtained under the gold exchange standard system differs from the stability of exchange that is obtained under the gold standard system. The stability of exchange obtained under the gold exchange standard system depends on the operations of the Government and the ability of the Government to meet the reverse councils and the council bills at the requisite points and when the rupees are being infiltrated into our country as a result of the sale of council bills you will find that prices are being forced up. So that the stability that can be obtained under the gold exchange standard system is different from the stability obtained under the gold standard system. The gold standard system stability will be automatic and free in operation. The inflow and outflow of gold will be taking place. Here, although you obtain stability of exchange there is an impeded flow of gold into our country. So that there is a difference between the two stabilities.

7396. You are referring there to the old system of the gold exchange standard. I understand that in reply to the Chairman you agreed that the system might be perfected so as to produce the same effects as the gold standard. So that your criticisms in Section III are really only criticisms of the defects in the previous gold exchange standard? Is that your position?—Yes.

7397. Now turning to section VI of your memorandum, in discussing the possible effects of a demand for gold for India, you say that, if India did not come into the gold market, "If the gold production were to be heavy and if industrial production were not to increase there would be a fall in price and it might act as a check to productive enterprise." Now, if there were a redundancy of gold in the world, the effect would be a rise in prices and a stimulus to productive enterprise.—I have sent in a correction—it is a mistake of the typist.

7398. I have not seen it: may I just look at it? Then the effect of the demand from India would be to check the rise in prices and to reduce the stimulus to productive enterprise?—Yes.

7399. (*Sir Purshotamdas Thakurdas.*) You mention in section VII regarding the question of the ratio—you say: "Fourthly, if the Government were to decide upon fixing the exchange ratio the future ratio of exchange between the rupee and the Mohur it has to take into consideration the future possibilities of gold and silver production and carefully fix the rate." What is your aim in asking the Commission to take into consideration the future possibilities of gold and silver production?—The question of prejudicing the international interests if the value of gold is to be affected by India's demand, that was the idea in my mind when I was writing that sentence.

7400. And regarding silver?—If the fall in value of silver were to be very great in future, the Government would be the loser by fixing the exchange value at 1s. 6d.

7401. But you recommended a full-fledged gold standard. You propose to limit the rupee as a tender in due course?—Yes.

7402. That means that the demand by India of silver will decrease for rupee purposes?—Yes.

7403. You are against coining any more rupees. And therefore side by side with the future possibilities of silver production you would also say "and the future demand for silver in the world," would you not? Not only the production of silver but also the demand for silver in future?—Yes.

7404. You consider that also necessary to be taken into consideration?—Yes.

7405. Then regarding gold you are recommending a gold currency for India?—Yes.

7406. And it has been suggested that that may make India take considerable portions of gold from the world. And you have said that the other Powers which hold gold should not refuse India that quantity of gold which India may require?—Yes.

7407. And that would indicate among other things a higher price for gold?—Yes.

7408. Now, in view of these two things, namely, the possibilities of a lower price for silver in future owing to India not being a customer for silver for coinage purposes and the appreciation of the price of gold, which do you think would be the better ratio to fix and to maintain for the Government of India? 1s. 4d. or 1s. 6d.?—1s. 4d. would be better.

7409. Because there would be less gold required for conversion of the rupee and secondly because it would be easier to maintain?—Easier to maintain if the conversion of the rupee is immediatey taken up.

7410. Also lower down, under section VIII, you say: "The question of increasing our sterling obligations has to be curtailed in the near future until an effective gold standard has been operating." Why do you want our sterling obligations to be limited? Do you mean there should be less borrowing in England? Why do you want those to be limited with a gold standard and gold currency in India?—If there is gold coin and gold standard the question of limitation of the sterling obligations would be pre-supposed, and if they were asked to pay all these obligations in addition to an unfavourable balance there would be a very severe drain on the gold reserves of the country. Then it might not stand. So that if you say the majority of the obligations under this heading would be very limited and the unfavourability of balance were to appear, well, there would not be a very severe pull on the gold resources of the country.

7411. That is, in order to put as little strain as possible on the gold standard and gold currency in the earlier stages?—That is my idea.

7412. Now sterling borrowings in England are resorted to at present by the Government of India only when they find they cannot get the necessary money in India, and secondly when the scheme for which the sterling borrowing is made is urgent and important to the country, isn't it?—Yes.

7413. Then, when you ask them to restrict the sterling borrowings in the future, don't you think that you are asking them to delay schemes of public utility?—If it is possible to delay. If it is not possible to delay, they may contract obligations.

7414. If it is possible to delay. Now, regarding what you say in section VI, you realise that it might be stated that the use of gold coins can be brought about by making it compulsory that gold coins alone should be used in the payment of land revenue, excise duty and customs irrigation, etc. Do you think in India it is not possible?—Yes.

7415. Do I take it that you are of opinion that, whatever the cost and whatever slight inconvenience to the people, gold currency and a gold standard should be introduced without any delay?—Is that your conclusion?—I just want to hear the question once more.

7416. From what you say in section VI, the last part of it, I take it that it would be a fair inference from that that your anxiety for a gold standard and gold currency for India is so great that you would not mind even a slight inconvenience either to the Government or to certain portions of the people, if that was not unavoidable?—Certainly.

7417. (*Chairman.*) I do not think there are any further questions to ask you, Mr. Rau. We are very much obliged to you for your assistance here this morning and for your memorandum?—I think I should express my great obligation to the memhers of the Commission for treating me with so much consideration and excusing me for my natural defect. I thank you for the very great courtesy you have shown me.

7418. (*Chairman.*) Not at all, Mr. Rau. It is to our advantage.

(*The witness withdrew.*)

Mr. J. C. SINHA, called and examined.

7419. (*Chairman.*) Mr. Sinha, you are Reader and Head of the Department of Economics at the Dacca University?—Yes.

7420. Have you occupied that position for long?—For two years only.

7421. And before that?—I was a teacher in the Calcutta University for about 8 years, as a lecturer in Economics. Before that I was a student; I joined the Calcutta University as a teacher, two months after I got my M.A. degree.

7422. So your experience is that of a teacher of economics for 10 years and that of a student of the subject of currency?—Yes.

7423. You have been good enough to provide us with a memorandum* setting forth your opinions upon the subject of our reference, and you have also provided us with an addendum to your memorandum?—That is a mere question of calculation; that does not affect my main argument.

7424. This addendum does not affect your main argument, but it substitutes a correction in the detailed calculations in paragraph 21 of your printed memorandum. In paragraph 21 of this printed memorandum you desire to say that the additional sum required as reserve for the adoption of the gold standard has been estimated at 15 crores, the existing sterling securities in the gold and paper currency reserves having been valued at the statutory rate, but that if the rate of 1s. 5d. recommended by you be taken for this valuation then nothing would be required for this purpose. On the other hand, there would be a surplus of 3·6 crores, as estimated in the manner which you set out. Now referring to your memorandum, I find that, in the first place, you express the opinion that the times are ripe for a regulation of the currency and exchange problems of India?—Yes.

7425. You review various factors which lead you to this opinion, and you say that the most significant fact in this connection is the restoration of the gold standard in England?—Yes.

7426. I understand you to refer there to the circumstance that the pound sterling has now been restored to parity with the sovereign, and for the moment we need infer no other connotation than the gold standard in England?—Yes.

7427. In the second paragraph of your memorandum, you say: "when the price level abroad is moving up and down, we have to choose between stabilization of prices and of exchange." You adhere then to the opinion that it is impossible to achieve absolute stability both of prices and of exchanges?—Yes.

7428. If you desire to maintain an internal price stability independent of the movement of the world gold price, then you must expect exchange to vary?—Yes.

7429. If, on the other hand, you desire to maintain a stability of exchange, then you must allow your internal price to vary with the world's gold price?—Yes. But if we can stabilise the value of gold, that is, if we can regulate the output of gold and stabilise its value, then the stabilisation of prices will lead also to the stabilisation of exchange. That means control of the production of gold.

7430. Do you look upon that as a practical possibility?—No, certainly I do not.

7431. You conclude: "In such a dilemma, stabilization of price level is to be preferred in a country like India.' Taking this opinion as you express it, do I follow from that that you would set it before you as the ideal of India's currency system that you should maintain internal prices in India absolutely stable and allow exchange to vary?—Yes, if the question is decided only on theoretical grounds. But I have explained the practical difficulty of stabilization of the price level in the third paragraph.

7432. Then your opinion would be this, as I understand it, that absolute stabilisation of the price level in India would be preferable if it were possible?—Yes; it is an ideal which cannot be attained at the present time on account of various non-economic factors.

7433. But that being practically unattainable in an imperfect world, it is better to maintain exchange stable and thus to keep internal gold prices related to world gold prices?—Yes.

7434. In your fourth paragraph you say: "We have to choose, therefore, between the gold standard and the gold exchange standard. Between these two, I would advocate the gold standard with gold notes and coins in circulation, the rupee being a limited legal tender. This is certainly not the ideal form of currency but it is the best under our present circumstances." What, in your opinion, is the ideal form of currency?—The ideal will be a currency system which will maintain a stable level of internal prices.

7435. The ideal to which you are there referring is that you are referring back to the ideal of stabilising internal prices?—Yes, and for that we require paper rather than gold,—something like the Fisher scheme.

7436. That is the introduction of no new idea; it is simply a repetition of the ideas in your second paragraph?—Yes.

7437. In your next sentence you say: "I do realise that the circulation of gold coin in the place of silver means some extra cost." Have you been able to arrive at any estimate of the actual cost of such a substitution?—Yes; I have tried to make an estimate in the footnote. I have mentioned in the next paragraph that the additional cost on account of the circulation of gold will not exceed one lakh of rupees per annum.

7438. In making your estimate of cost you have taken into account that you will replace half of the active rupee circulation by gold coins?—Yes; that is rather an exaggerated estimate. But that is the maximum.

7439. Have you also taken into account any replacement of hoarded rupees by gold coins?—I have not, for, I do not think that much silver coin is hoarded now. If anything is hoarded, it is in gold.

7440. Have you attempted to form any estimate of the amount of rupees actually in hoards?—No.

7441. Evidence has been placed before us to the effect that the amount of rupees actually in hoards may be somewhere between 100 and 150 crores. Have you any comment to make upon that figure?—It is difficult to make any comment. I do not know how the figure has been arrived at.

7442. Let me tell you how that estimate has been arrived at. It has been arrived at by considering, first of all, the number of rupees actually coined, which is a known amount; secondly, estimating the number of rupees which have been melted down or recalled by Government; thirdly, estimating the amount of rupees which may be expected to be melted down by the public; fourthly, estimating the number of rupees which one may consider to be still in active circulation, the balance being the amount of rupees which must be hoarded?—But I am told that some rupees do circulate outside India. Has that factor also been taken into consideration?

7443. The rupee circulation in Iraq and Ceylon has also been taken into account. In that way we have been given evidence to the effect that the amount of rupees in hoards may be between 100 and 150 crores. Have you any comment to make upon that estimate?—It is difficult to make any comment, because some of these are mere estimates and it is difficult to say how far they are correct. It is difficult to say how much is melted. That is more or less a guess work and I cannot make one guess work upon another.

7444. You quite rightly point out that there are many elements of hypothesis involved. Nevertheless, it is a most relevant circumstance, is it not, for our consideration, when we are considering the point we are dealing with here, *viz.*, the cost of substituting rupees by gold?—Yes; but even if so many rupees

* Appendix No. 36.

remain in hoards, is there any likelihood that all these will be converted into gold? I do not think it to be a possibility. First of all I do not think that a large number of rupees is actually hoarded now. People would rather hoard gold if that is possible, rather than silver; and secondly I think that even if there is a very large amount of silver in hoards, there is no immediate danger of the rupees being converted into gold.

7445. What is your proposal for the introduction of a gold currency? How would you deal with the rupee?—First of all, we have to fix the legal tender limit of the rupee at a rather high figure.

7446. The rupee is no longer to be legal tender? —It will be limited legal tender.

7447. For an unlimited amount?—No.

7448. That being so, is it possible to make the rupee no longer unlimited legal tender, but to make it legal tender for a limited amount without giving a previous opportunity to the holders of rupees as a store of value to convert those rupees into gold?—That is not fair.

7449. Will you say what you mean by that statement that it is not fair? It will not be fair to reduce the position of the rupee without giving them the opportunity?—Yes.

7450. Supposing that it would he unfair to make the rupee no longer unlimited legal tender unless you give the present holders the preliminary opportunity to convert rupees into gold, then must we not contemplate the possibility that the whole, or a part, of the hoarded rupees will be presented for substitution in gold? Supposing we act upon your opinion that you must not limit the legal tender of the rupee unless you have given a preliminary opportunity to convert the rupee into gold, then, upon that opportunity being provided, must we not take into account the probability that a large amount of the hoarded rupees will be presented for conversion into gold?—Taking the Indian habit as it is, I do not think it will be done immediately and if we fix the legal tender limit of the rupee fairly high, I have suggested Rs. 500 for the present, there is no immediate danger of a large number of the rupees being presented for conversion into gold; much depends upon the limit of the legal tender of the rupee.

7451. What limit do you suggest?—As a mere tentative suggestion, it may for the present be limited legal tender up to 50 mohurs or Rs. 500.

7452. Let us just look at that. Supposing you make the rupee legal tender for some very large figure, say Rs. 10,000—(I am taking a large figure on purpose)—that does not effect, in fact, any dethronement of the rupee from the position of a standard coin, does it?—If it is a very high figure, it does not.

7453. Supposing you do take some figure which amounts to a practical dethronement of the rupee from its position as a standard coin, shall we say legal tender for payment of Rs. 100?—Then there may be some difficulty.

7454. Do not let us travel too far at once. My question is this. If you take any figure for a limitation of the legal tender of the rupee which, in fact, practically amounts to the reduction of the rupee to the position of a subsidiary coin, it being no longer the standard coin, does that not make it essential that, in the first place, you should give the people an opportunity of converting their rupees into gold? —Yes; my point is that this opportunity will not be taken advantage of to a great extent, if the limit is fairly high for the present.

7455. Are you not then confronted with this difficulty, that if you make the figure at which the rupee is to be legal tender so high as not to make any difference in the value of the rupee as a store of value, then you are not, in fact, making any difference in the position of the rupee as a standard coin; but, on the other hand, just to complete the horns of the dilemma, if you do reduce the limit of the legal tender of the rupee to such an amount as to effect the dethronement of the rupee from the position of a standard coin, then you are affecting its value. Is that not a necessary alternative?—Yes, but I do not mean to say that you are doing it immediately. After a few years when the gold standard is completely established, then the legal tender of the rupee will be much lowered. It is only during the transition period that the limit may be high.

7456. What figure do you propose yourself to take as the first step in the limitation of the position of the rupee as legal tender?—I shall limit it to Rs. 500 or 50 gold mohurs.

7457. The rupee is to be legal tender up to Rs. 500?—Or rather 50 gold mohurs because I make the mohur the standard coin.

7458. For the holder of the rupee the important circumstance will be that he cannot make a payment of more than Rs. 500. Would that, in your opinion, or would it not affect the value of rupees held in hoards by holders of rupees?—I do not think it will affect the value of the rupees in hoards materially because so far as these hoards are concerned they are small hoards; and big people do not hoard rupees. If as I think there are only small hoards and the legal tender limit of the rupee is up to Rs. 500 it won't affect the position of the rupee in these hoards to any great extent.

7459. Are you basing that opinion upon the assumption that there are no big holdings in hoards? —That is my idea. Rich people are not so foolish as to keep hoards of rupees, though I know some who do keep gold, but not rupees.

7460. Would it surprise you to learn that we have had evidence to the effect that there are very large hoards of silver rupees held in the country? Let me mention the particular instance of hoards held by Native States?—I have no information about these Native States.

7461. Just to test your argument, assuming that there are big hoards of silver rupees held by persons in the country, for instance in the Native States, and supposing that you yourself were in the position of a holder of a large hoard of silver rupees, would you or would you not feel that the value of your hoard was affected by the reduction of the limit for the legal tender of the rupees in your hoard to Rs. 500?—Yes, theoretically it ought to affect the value of the rupees; but I think if some people are so foolish as to hoard rupees, in these days, I do not think they will take advantage of this opportunity of converting them into gold.

7462. What I am trying to elucidate is whether we have not to contemplate that the holders of these big hoards will present their rupees for conversion as soon as the opportunity is provided, and I rather gather from your reply that you would be of opinion that if they are so stupid as to hold rupees in hoards now, they will be too stupid to take advantage of the opportunity of conversion?—Yes, I think so.

7463. I am afraid it will be unsafe to place very much reliance on that possibility, because, after all, there are always intelligent people who are prepared to tender advice, are there not?—But why did they not tender advice up to now, why did they not give them advice to open banking accounts?

7464. If you will make the assumption that there are people who hold large stores of silver rupees—(I quite recognise that you are not prepared to agree to that as a fact, but if you will, for the purpose of our discussion, make the assumption that there are people who hoard rupees)—why, in your opinion, are such hoards of rupees held at the present time? —The small hoards or the big hoards?

7465. Small and big?—With regard to big hoards, I am rather sceptical; my information is that there are none. If there are small hoards, it is because there are no banking facilities in India and people do not know how to invest their money. The other day at Dacca I was drawing some money from the post office. There was a chaprassi who had some small amount in the postal savings bank and he said "I am not going to keep my money there; I would rather hoard it." The illiteracy of the people and the lack of banking facilities are, I think, the chief reasons.

7466. Then I gather that, in your opinion, the great remedy for the hoarding habit of the Indian nation is the provision of proper banking facilities?—Yes, and the education of the masses; because even if they have proper banking facilities they must have more education to know how to take advantage of these things.

7467. How, in your opinion, should banking facilities be increased in the country?—So far as Bengal is concerned, we have so-called loan offices run by pleaders; these are not banks in the proper sense, but if we could interest our business men and start real banks with State audit it would be a good thing. I made some suggestions with regard to these things to the External Capital Committee. I have not got any clear cut scheme here now. I think that is a matter which may be discussed by the expert committee which is gong to be appointed in the near future as we learn from Sir Basil Blackett's speech. For small banks some amount of State audit and State control will be necessary. I do not know if the Imperial Bank can come to the help of these institutions because what we have now in Bengal are not banks proper but loan offices which lend money to zamindars on mortgage. There ought to bo real banks to help trade and industry. Steps ought to be taken in that direction.

7468. Before we leave this topic just let me put a final question which is relevant. If there are such hoards of silver rupees and the opportunity of exchanging them into gold is to be provided, then no doubt we must reckon the cost of substituting those silver rupees with gold as an additional cost of the scheme for introducing a gold standard?—Yes, but this cost is quite different from what I have calculated.

7469. And this is additional?—Yes, if there are hoards of rupees ready for conversion. Speaking generally, the cost of substitution is a more or less permanent factor which must always be faced, unless we can replace gold mohurs by notes.

7470. The cost of replacing notes is additional to the cost to which you refer here of substituting rupees by gold in circulation?—Yes, but as explained in my memorandum, I do not think notes will have to be substituted by gold, and so I have calculated only the cost due to the wear and tear of the gold coins.

7471. Then I see in paragraph 9 you say that under a full gold standard the currency will become more automatic. Could you assist the Commission by describing how the full gold standard is more automatic in its operations than a scientific gold exchange standard?—For example, suppose there is an adverse balance of trade then gold may leave the country as a matter of course and there need not be any selling of reverse councils by the Bank; or if there is a favourable balance of trade gold will flow into the country through the banks. It does not require the selling of council bills which it is believed, are sometimes sold at too high a rate and sometimes at too low a rate. All controversies about rates will disappear. Scientifically speaking political factors do not come into the question. Any scientific gold exchange standard would be theoretically all right. But you see people have lost all confidence in that. As a concession to public opinion and to put a stop to all controversies I want gold standard. It will mean less management by the Government. I do admit that no management at all, is not possible, but I want less management by Government.

7472. Should I be doing justice to your opinion, as between the gold standard and the gold exchange standard, if I were to say, in view of your last answer, that you prefer the gold standard not perhaps because it is scientifically more automatic than the gold exchange standard but because people think it is?—In one sense I would say yes. If you can trust the authorities which control this gold exchange standard. it is all right; but there is always this danger, that they are not infallible; our currency experts are not infallible. If there are no blunders like the reverse council muddle of 1920 then of course it may be all right.

7473. With regard to this question of manipulation, what effect would it have upon your opinion as to the relative advantages of the two standards if the control of the currency and the currency reserves under a gold exchange standard were transferred from the Government to a Central Bank?—That depends upon the nature of the Central Bank. If the Bank has the confidence of the public then it will be all right.

7474. What are the essential conditions in the constitution of a Central Bank in order to secure this necessary confidence? That is the very last phrase of your memorandum, in which you say that ultimately the work of Government in connection with the exchange and note issue should be transferred to the Imperial Bank but after imposing special conditions on the Bank to safeguard the interests of the Government and the Indian public?—Yes, the difficulty is you must understand the psychology of the Indian public. They of course do not like State management, but management by the Imperial Bank they would not prefer, as the Imperial Bank now stands. You know there is the opinion, rightly or wrongly; only the other day there was a note appended by Mr. T. C. Goswami to the External Capital Committee's Report which says there are racial distinctions made by the Imperial Bank. I do not say that it is true, but there is the feeling and I know that this note was quoted all over the country and perhaps it attracted more attention than the Report of the External Capital Committee itself. So long as the feeling is there, if we change this management from the State to the hands of the Imperial Bank I do not think that will be a real solution of the Indian currency problem.

7475. Interesting as it is to learn the opinions of the uninstructed public, we are concerned here with a region in which more illumination may be expected, and we have to inquire, have we not, whether a standard may be made satisfactory if it is entrusted to a properly constituted bank?—You mean the gold exchange standard?

7476. Yes. What are the essential features in the constitution of the Bank in order to make it satisfactory that it should be in charge of such a standard? It occurred to me that possibly you might have given some consideration to that problem?—The public may be uninstructed; but we cannot ignore public opinion in these things; after all you have to do not with a small section of the intelligent public, but with the public as a whole, whose confidence must be secured, and I think no kind of gold exchange standard will satisfy public opinion. That is my idea. The gold standard may not be the best, and it may be more costly; but that cost has to be incurred in order to remove public suspicion; I have said in my memorandum, as a sort of insurance premium against blunders by the currency experts. Just as in ordinary insurance you have to go on paying the premium though there is no outbreak of fire every day; this is something like that. I know it is more costly, but that is my standpoint.

7477. You will not suppose that my questions imply an argument in favour of one standard or the other; I am proceeding only upon your own reply, that the gold exchange standard would be satisfactory if it were in the hands of a properly constituted Central Bank; and I am seeking to ascertain what, in your opinion, were the essential features in the constitution of the Central Bank in order that it might be made a satisfactory repository for the control of such a standard of currency?—As regards this matter I think it is one which requires to be threshed out by an expert committee on banking. I cannot say whether this charge of racial discrimination is true or false; it is difficult to give an offhand answer to that question as to what would satisfy public opinion. Personally I dislike managed currency as more liable to error and abuse and I think it is better to have a gold standard.

7478. We must in the last resort, must we not, as between ourselves transfer responsibility to some

expert opinion other than ourselves. That is what we are here to consider, are we not?—With regard to banking, what will actually satisfy the public I cannot say; I have not the facts at my disposal.

7479. I am feeling a real difficulty, because you told me that, as between the two standards, the gold standard and the gold exchange standard, the question as to whether one or the other is to be preferred depends in your mind upon whether a Central Bank is properly constituted or not. That seems to imply that it is absolutely essential that we should consider what is the proper constitution for the Central Bank?—With regard to the gold exchange standard alone there is this difficulty; that even if it is in the hands of a Central Bank I do not know whether it will satisfy the public altogether.

7480. Let us leave that difficulty for future solution. In paragraph 11 you refer to the rate of exchange between the rupee and gold; and you say "In selecting the proper rate we should look not to the special interest either of the importers or of the exporters or of a particular industry or industries." You then express the interesting opinion that if any industry has to be assisted the proper method of doing so would be by bounty or protection, or both, and not by manipulation in the exchange rate?—Yes.

7481. I understand that you deprecate management of the exchange rate as a method of benefiting Indian industries?—Yes, certainly.

7482. You say in the next paragraph: "There is something to be said in favour of the present 1s. 6d. rate, but I doubt whether this rate will continue for long." Can you amplify that a little by telling us what assumptions and forecasts give rise to your doubt as to whether this rate will continue?—I have explained that in the next few lines—"the rise in the gold value of the rupee during the last nineteen months is about 20 per cent." It really depends upon the European demand for our products and our demand for European products. I know that owing to the post-war economic reconstruction the European demand for our products is pretty keen and so we need not go back to the 1s. 4d. rate, we have been enjoying good harvests for the past four or five years; suppose there is a famine in the near future, will it be then possible to maintain this 1s. 6d. rate? The mere fact that we are going to adopt the gold standard will have some effect on the value of gold also and the rate may come down at once.

7483. Perhaps you would explain why these changes in the demands to which you refer, after the adjustment of prices to any given rate, such as the 18d. rate, would make it more difficult to maintain one rate rather than another?—We should know why this high rate has come into existence, why the rate has improved from 1s. 4d. to 1s. 6d. I think it is due to the increased demand for our products in Europe. But can we count upon increased demand at that rate for ever, or say during the transition period?

7484. I do not quite follow how what you mean by increased demand affects this question. Can the foreign trade of any country continue to show a balance upon the one side of exports or the other side of imports for more than a very limited period?—That is true; but I mean to say that what fixes the external value of the rupee is the foreigner's demand for our goods; if that demand is very keen, the external value of the rupee is rather high; in that way I have looked at this problem. Suppose there is, on the other hand, a famine in the country and prices rise, then the foreign demand at once drops and the external value of the rupee will go down.

7485. Sooner or later, over any reasonable period of time, what the country exports in reply to a foreign demand must be balanced by some form of import?—That is ultimately true.

7486. If it is not, then there will be such changes in the price level as will need adjustment?—Yes.

7487. If that is so, from what we know as the ordinary economic analysis, why is the present rate of 18d. harder to maintain than a lower rate, or the lower rate easier to maintain that 18d.?—I think there are two opposing kinds of forces, some try to push exchange up, others try to push it down, and I think we should take 1s. 5d. as the resultant of these two sets of forces. I think that is a more normal rate under the circumstances.

7488. Let us examine what is meant by the normality of the rate. What is a normal rate and what is an abnormal rate? What I would suggest, according to current ideas, is that a normal rate is one at which the internal prices of the country have adjusted themselves to world prices?—You mean the purchasing power parity?

7489. I mean, if I may say so, nothing of the sort at all. Is there any level in rates which can be said to be normal or abnormal except that rate to which the internal prices of the country have adjusted themselves and are in equipoise with world prices?—Yes, that is the normal rate.

7490. If we take two extreme cases to illustrate our discussion, of a rate of 2s. and a rate of 1s., is it your opinion that, if we assume that in the one case prices have adjusted themselves to the 2s. rate and in the other case prices have adjusted themselves to the 1s. rate, one of those rates is absolutely easier to maintain than the other, and, if so, why?—I hope, there is, in the illustration you take, no control of exchange or selling of councils or sterling purchases of any kind.

7491. I am assuming that the currency system of the country is free from any management, whether it be a gold standard, or a gold exchange standard. What I want to know is whether it is easier in your opinion to maintain one rate or the other, if we assume that in either of the cases prices have once adjusted themselves to that rate?—If the prices have adjusted, I think it is immaterial. But suppose there is a famine in the country and the price level rises. During the last few years we had good monsoons and good harvest; we cannot expect that it will continue for ever.

7492. Supposing we take it that there are bad monsoons and famine conditions, and we assume that prices have adjusted themselves to the 2s. rate in the one case and to the 1s. rate in the other, is it in your opinion harder to maintain the rate in the one case than in the other, and, if so, under which conditions, and, if so, as I have said in one of these numerous queries, why?—With regard to this my contention is that prices have not adjusted themselves to 1s. 6d.

7493. We are making the assumption, for the purposes of our little discussion, that prices have adjusted themselves to either of those two rates. I will ask you a further question afterwards?—If we assume that the prices have adjusted themselves to this rate, one or the other, and if world prices and Indian prices are in equilibrium?

7494. In that case?—Even then I think they would adjust themselves to the rate I have recommended for the transition period.

7495. If you would rather not express an opinion without further reflection, I do not want to hurry you into an opinion which you have not considered?—Yes, that is an academic matter which I have not considered. I cannot give an opinion offhand on an hypothetical question.

7496. That is a question to which you would like to give further consideration. Now you say that, in spite of this fact, there is no immediate possibility of exchange going down to 1s. 4d. You do not look upon that is a natural consequence to foresee?—Well, practically, as I have already said, Europe's demand for produce will remain keen for some years to come. That is what I have suggested.

7497. Then you say that you would advocate 1s. 5d. during the period of transition from our present system to the gold standard, which will mean far less inflation of the currency that in the case of a 1s. 4d. rupee?—Yes.

7498. Then you say that it could be more easily maintained than the present 1s. 6d. rate, which does seem to argue the formation of an opinion upon that question on which you have preferred to reserve your opinion?—Because what I thought is this. Whatever may be the opinion on the hypothetical question, how much price can you demand from foreigners if we keep the exchange rate very high?

7499. Let us leave that, because I understand you have reserved your opinion upon that. You say it will mean far less inflation of the currency in the case of a 1s. 4d. rupee. Shall I be right in assuming from that that there will be some inflation?—Yes, but not much, as I have explained in the next paragraph because we have to go only from 1s. 6d. to 1s. 5d.

7500. What will be the consequences of the measure of inflation involved?—Of course that depends on the degree of inflation.

7501. It is the degree of inflation involved in reducing the rate from 1s. 6d. to 1s. 5d.?—The consequence of inflation are quite patent.

7502. It means rising prices?—Yes, in India.

7503. It means all the normal consequences of inflation in the proportions involved?—Yes.

7504. Might not a critic of your proposal put this to you, and say that inflation is usually looked upon as involving consequences that are not beneficial. Do you agree to that proposition or not?—As between inflation and deflation I think inflation less harmful. Of course, I would rather have stabilisation of prices. Stable prices is much better than either of the two. But as between them I think inflation is much less of an evil than deflation.

7505. This critic to whom I was referring would seize upon the first part of your reply and say that, as between stabilisation and inflation, he would prefer stabilisation?—Yes.

7506. He would say to you: "Why, if that be so, and for what advantages, do you recommend a step, that is the reduction to 1s. 5d., which would involve some of the evils"?—My idea is that it will be more easily maintained. 1s. 6d. is rather too high a rate. I believe it may be possible to maintain even the two shillings rate—it may be possible by a larger deflation of currency. But would that be desirable? Would 1s. 6d. be a safe rate?

7507. Should I not be right now, after our discussion has reached this point, in saying that you proceed upon the assumption that the 1s. 5d. rate is more easily maintained than the 1s. 6d. and that, as you tell me, involves a proposition as to which on the whole you would prefer to reserve your judgment, that one rate is more easily maintainable than another?—But as I have said I mean that this 1s. 6d. rate has not been determined out of the equilibrium of Indian prices with world prices and hence more difficult to maintain.

7508. Then that opinion is based upon a further opinion that Indian prices are not adjusted to the 1s. 6d. rate, to the current rate?—Yes.

7509. That is an important head of inquiry. Can you assist the Commission by any amplification of your opinion as to whether or not current Indian prices are adjusted to the current exchange rate?—Of course, they are not. That is my whole point. It is patent, if you look at the index number of prices, for India and other countries. I have got here some figures from this monthly bulletin of the Economist.

7510. What prices are you referring to there?—Those of the monthly bulletin of the League of Nations published as a monthly supplement by the Economist.

7511. It is the Economist index number?—Not the Economist, but the League of Nations bulletin as summarised in the Economist every month.

7512. The League of Nations Bulletin gives certain summaries of index numbers. What index number does the League of Nations give?—It gives the United Kingdom Board of Trade Index Number and the Calcutta Index Number, beginning from 31st July, 1914, and there are also other countries. And if you will take the index numbers that does not show that the exchange ought to go up to 1s. 6d.

7513. This gives the United Kingdom Board of Trade Index Number, that is for wholesale prices, I imagine, and the Calcutta Index Number also for wholesale prices. Are these the two prices to which you are referring?—And there are other countries also, Germany and many other countries.

7514. It is a little difficult to follow because we are not told exactly what the figures are. We are now looking at this, are we not, to see whether Indian prices are, on the whole, in adjustment with prices elsewhere?—The Indian prices have gone down lower than English prices, from 181 in October, 1924.

7515. The rate of exchange has been rising, of course, since then. That is what you would expect, would you not?—Yes, but is the fall in prices proportionate to the rise in the rate of exchange?

7516. The last two figures that we see here in your figures are the United Kingdom Board of Trade Index Number for wholesale prices in September of this year, which is 156, and the Calcutta Index Number for September of this year, which is 158?—Yes. If you look at the purchasing powers of different currencies alone, if there are no other factors, and if the rate of exchange is calculated from the Index Numbers, it will be somewhere near 1s. 4d.

7517. I wish you would explain to me how you calculate that theoretical rate of exchange from the index numbers of 156 and 158. Do these not show a substantial adjustment, within the margin of error, for the calculation of such indices?—Well, the index number representing English prices divided by the index number representing Indian prices multiplied by the rate of exchange in the base year, would be about 1s. 4d. So I think this 1s. 6d. is rather high. I am working on the doctrine of the purchasing power parity, according to which the index number representing prices in one country, say England, divided by the index number representing prices in a second country, say India, multiplied by the rate of exchange in the base year gives the purchasing power parity to which the exchange rates should approximate. Of course that does not tell us much definitely because after all there are many forces deflecting the rate of exchange from this purchasing parity. But I mean it shows that 1s. 6d. is rather too high. As I have said in my memorandum the increase in the value of the rupee is 20 per cent. during the last 19 months. That is rather too high; that is what appears to me.

7518. What are the special circumstances justifying this high rate?—I have already stated them. In fact, there are two sets of forces, and I think I would have the golden mean of the two. That is what I have suggested.

7519. I wonder if you will repeat, so that I may try and follow it, the calculation which you have just made to show that the prices are not adjusted at the present rate?—I am referring to the doctrine of the purchasing power parity, namely, that the index number representing English prices divided by the index number representing Indian prices, multiplied by 1s. 4d., the exchange rate in the base year, is the basis parity. I took the figures from the Board of Trade. If you will take the Economist index number, it will be different, but it will be much less than 1s. 6d.

7520. Continuing with your recommendations, you recommend the striking of a new coin called the gold Mohur—this is in paragraph 15—and the fixing of a convenient ratio between the new gold coin and your adopted ratio of 1s. 5d.?—Yes.

7521. Then you enter into a calculation as to the amount of gold that would be necessary for the introduction of your proposals, and you arrive at the conclusion that they will require 175 crores worth of

gold?—Yes, that is additional to India's present supply.

7522. I think that concludes the substance of your positive recommendations?—Yes.

7523. (*Chairman.*) Will you now be so kind as to answer any supplementary questions which my colleagues may have to ask you in connection with these things.

7524. (*Professor Coyajee.*) Professor Sinha, you quote an opinion of Dr. Cannan to this effect:—As Professor Cannan rightly observes, "the single advantage offered to a country by the adoption of the gold exchange standard system, instead of the simple gold standard is that it is cheaper, in the sense of requiring a less value in the shape of metallic currency than the gold standard. But all that can be saved in this way is a trifling amount almost infinitesimal beside the advantage of having a currency more difficult for administrators and legislators to tamper with." Now Dr. Cannan takes only one item of the costs, namely, that a certain amount of gold currency will have to be introduced, but he does not take some other items additional to that—the second item would be the depreciation of the whole amount of silver in the hands of the country whether as ornaments or as coin, because that will have to be sold?—You mean the depreciation in the value of ornaments or silver hoards?

7525. Yes?—Then that is a factor. But if we spread our sale gradually, I think this loss would be minimised. Of course that is a factor which we cannot get over completely.

7526. I mean, the amount of silver ornaments in the country must be very large. Silver is in the hands of many as ornaments?—When silver is demonetized, of course, that is a factor. You mean there will be a further fall in the value?

7527. Yes, when it is known in the silver market about India, which is one of the mainstays?—But that depends on the amount of silver that is at once thrown into the world's bullion market from India. There is that psychological factor in the first place. But the question is whether that will be permanent. Of course, it must be depreciated to some extent, I admit.

7528. Perhaps the biggest purchaser of silver will then be out of the market?—That is so.

7529. Then is not there a third item?—But so far as that is concerned, I may say that if you spread the sale over a number of years, I think that this loss would be lower.

7530. You spread the sale of the bullion and the coin, but the ornaments will be permanently depreciated, or, if exported, they will not be exported in that very discreet way which you suggest?—As soon as India adopts a gold standard, there will be a fall in the value of silver and a rise in the value of gold, but the question is whether that will be permanent, whether that fall will continue for ever, unless we at once throw a large amount of silver on to the world's markets.

7531. You mean the conditions of the production of silver might adapt themselves so that less is produced?—Yes, and if you spread the sale over a number of years.

7532. Now is not there a third item? It has been suggested like this: the contention has been put in this way, that if you utilize India's favourable balance of trade to get more gold for currency, then *pro tanto* it must restrict her imports of industrial equipment for her industrial progress. Is not that true? We cannot use the more favourable balance to get two things, gold and the other things?—But what do we at present do in respect of importing a large amount of gold?

7533. That is true, but that might be added, because there are social uses of gold and you superadd to them the currency factors?—But we are importing silver also; of course, that will be less.

7534. Then as regards your base year, from this you calculate the purchasing power basis of parity; and will you show us whether your calculation tallies more with 1s. 5d. or more with 1s. 4d. or 1s. 6d.—if you could do it on the spot, it would greatly assist the Commission?—I have not got all the figures.

7535. But what is the base period which you are taking?—If you take, say, 1913. But I say we should not put much faith in that alone because there are other factors.

7536. So it is not conclusive by itself?—That calculation would not be conclusive; all that I mean to say is that 1s. 6d. rate is rather too high.

7537. (*Sir Purshotamdas Thakurdas.*) I have to ask a question, Mr. Sinha, about the loan offices which you say are run by pleaders. You say that in every district in Bengal there are some banks, but that what they do is to lend money to the zamindars on the mortgage of their property. Who runs them?—Mostly the pleaders of the district courts.

7538. Will you tell us what sort of capital they command?—They attract deposits from the public, and they lend this money generally to the zamindars of Bengal. Most of them do this.

7539. They simply do the business of lending on mortgages of landed property?—Yes, that is their main item of business.

7540. If they attract deposits from the public, are they limited companies? Can you give us the name of one of these? What do they call their institution?—Yes, they are limited companies; one of them, for example, is the Pabna Bank. Such a Bank does not do genuine banking business.

7541. Are there many of these small Banks in Bengal?—In almost every district there is one.

7542. And they are run by pleaders only?—There are outsiders also, but pleaders generally run the show.

7543. What sort of dividend do they pay?—Sometimes a good dividend—10 to 12 per cent.

7544. Then what sort of deposit interest do they pay to depositors in order to attract deposits?—Much higher than the interest given by, say, the Savings and other Banks. I cannot give exact figures, as I have not studied the subject in detail. But what I say is that these banks may be converted into real banks.

7545. (*Sir Reginald Mant.*) Mr. Sinha, you have estimated the cost of introducing a gold currency at about Rs. 1 lakh per annum?—That is so far as the wear and tear of gold coins is concerned. If we substitute gold coins for silver, that means some extra cost, in wear and tear, and that cost, as I calculate, won't exceed one lakh of rupees.

7546. Then you would also take into account the cost of acquiring 110 crores worth of gold?—I have considered the matter in my memorandum later on. That is additional, but that is not a recurring factor. So long as gold coins circulate, the one lakh, however, will be more or less a recurring factor, unless you can replace gold coins by gold notes.

7547. Then you might call it a capital charge?—Yes, unless we can have more of gold notes in place of these gold coins—which would be our ideal.

7548. But a capital charge represents an annual interest charge, does it not, the interest charge on the cost of acquiring 110 crores worth of gold?—Yes. Of course, I do not pretend that we can have gold standard without having to bear the cost.

7549. In paragraph 10 of your memorandum, in discussing the effect on world prices of India adopting a gold standard, you quote the opinion of Sir James Wilson that the world's available supply of gold is now increasing faster than the world's effective demand, and you conclude that it is thus to the economic interest of Western nations that India should adopt a gold standard with gold currency. Then two paragraphs later. In discussing the possibility of maintaining the 1s. 6d. ratio, you doubt whether the ratio would continue long, because you anticipate that with the increased production of commodities in Europe the general price level may fall. How do you reconcile those two arguments? In the one case you argue that there is a risk of a redundancy of gold, and in the other you argue that you anticipate a

scarcity of gold. How do you reconcile the two arguments?—Both forces are there, but they do not operate to the same extent, and at the same point of time. In the opinion of Sir James Wilson and Dr. Gregory, there will be a surplus of gold for the East if Europe wants to maintain the present level of prices.

7550. You accept that opinion when you argue in favour of a gold standard and you reject it when you argue against the rate of 1s. 6d. Is that your position? I am trying to reconcile your two arguments?—Both forces are there. It will be the resultant of both the forces. There is this tendency of the excess output of gold and on the other hand there is this danger of increased production. The former is immediate, the latter remote.

7551. *(Sir Maneckji Dadabhoy.)* Mr. Sinha, like my colleague, Sir Reginald Mant, I also feel a little bit embarrassed by your reasoning in regard to the question of the ratio which you gave in answer to the Chairman's question. In paragraph 11 you have made your position perfectly clear. You have given us as your considered opinion that "in selecting the rato we should look not to the special interest either of the importers or exporters of or a particular industry or industries. The rate should be so selected that it can be easily maintained." The sole test of the ratio according to your opinion should be its maintainability. On the other hand, when discussing the question of the high rate, in answer to the Chairman, you said, I have taken down almost your words and you might correct me if I am wrong, that "the high rate has come into existence. It is due to increased demand for our products in foreign countries. It is the foreigners' demand for our goods that increases the external value of the rupee." How do you reconcile these two statements? At one place you argue that the test is maintainability and that you should not look to the special interests, either of the importers or exporters?—I do not mean that it is not affected. What I meant was that we should not be looking to these interests only. That is, a low rate may be favourable to exporters, but we should not advocate it merely because it is favourable to the exporters. We should not, on the other hand, advocate a high rate because it favours the importers.

7552. But that high rate, according to you, is brought about by other factors and by external value of the rupee as controlled by the export of our products?—Yes.

7553. Then the ratio is to a certain extent also influenced by these external considerations?—The ratio is certainly influenced by external considerations. I do not see any inconsistency there.

7554. Then you have given your opinion that there is no immediate possibility of exchange going down to 1s. 4d. Is it not a little bit too dogmatic an opinion? I will put it the other way. Would you have said 16 months ago the same? Would you have used the same language and said there was no immediate possibility of the exchange going up to 1s. 6d.?—I have formed that opinion from the demand for the Indian products abroad. Just after the economic readjustment in Europe the demand for our products remains there, and so long as it remains so, we must have a higher rate than this 1s. 4d.; but whether we should be able to keep to 1s. 6d. after the demand grows less keen, as it must, is another question.

7555. May I gather, then, that this increase in the ratio has been due to a large demand for our goods?—Yes.

7556. Have you got any information for that statement? Any figures to show that?—If you look at our export trade you will find it.

7557. Of course, there is always the balance. But as compared with the previous years, has there been during the last 16 months a comparatively large volume of exports? Are you in a position to say that?—If you look at the prices of our exportable products, you will find it. Sir Basil Blackett, in his last Financial Statement, said that, in spite of the high exchange, the prices of these products were high. That shows the foreign demand.

7558. You know very well that had it not been for certain manipulations, probably the exchange would have gone up to 1s. 8d.?—Yes.

7559. And it is only on account of the timely saving that exchange has been kept up at 1s. 6d.? How do you account for that, then?—But can it go on for the next five years? Suppose there is a famine, will there not be a rise in prices, and will it not be difficult to maintain this 1s. 6d.?

7560. Can you specifically enumerate the special circumstances justifying the present high rate of 1s. 6d.?—You mean which have brought about this rate?

7561. Yes; can you enumerate the circumstances justifying this rate?—I cannot give any definite figures; but I think it is the foreign demand which is really responsible.

7562. Finally, I understand that the ratio, which you recommend, of 1s. 5d. is to be only provisionally fixed during the period of transition. Is that your idea?—Yes.

7563. It is not permanent?—Yes; because if we have gold standard, pure and simple, then the rate is immaterial.

7564. It will automatically adjust itself?—Yes.

7565. So this is only a provisional recommendation?—Yes.

7566. *(Sir Rajendranath Mookerjee.)* Let me ask you this, as a preliminary question; What do you estimate the population of India to be?—330 millions or something like that.

7567. What percentage of that population are so poor as not to be able to hoard silver to any large extent, according to your estimate?—70 per cent.

7568. How much do you think is the average amount they may hoard, I mean each individual?—Among the 70 per cent.?

7569. Yes?—I have no experience about that.

7570. You can give an average figure; you have experience of the village life in Bengal?—So far as Bengal is concerned, the peasants do not hold much. I have not come across anyone who holds any rupees.

7571. Would you say Rs. 20 each man as an average?—I doubt even that. So far as the villagers are concerned, they are very poor. Unless there is a surplus how can they hoard anything?

7572. You may give us the figure you consider as approximately correct?—I don't think any mere guesswork will solve the problem. Because I do not believe that all of them do hoard something.

7573. Take the average figure. Some may hoard and some may not. Can you not give us an average figure? I give you 20; you may give another figure.—20, I doubt.

7574. 15 rupees?—That means every year they will have a surplus of Rs. 15.

7575. You tell me what the figure is according to your estimate, not what it means.—My idea is that it is impossible to estimate. This cannot be calculated.

7576. Rs. 10?—Rs. 10 on an average?

7577. Yes.—No, otherwise how can you explain the indebtedness of the peasantry?

7578. You know the village life very well and yet you are unable to give us a figure.—So far as my native village is concerned, the people there are very poor and I don't think they save anything.

7579. They save nothing?—Some may save. But I cannot say whether the average will mean anything.

7580. The official estimate for hoarding is 150 crores. Then who holds this large sum? Some must hoard, at any rate?—You mean these 150 crores?

7581. Taking any hypothetical figure? Assuming that is the figure?—150 crores on an average, but in what year?

7582. *(Chairman.)* 150 crores held in hoards.

7583. *(Sir Rajendranath Mookerjee.)* Yes, I am not talking of years?—I have no experience of the peasants outside Bengal.

7584. Assuming that figure as hypothetical? The habit of classes which are supposed to hoard is generally to keep silver coins or as ornaments. Most

people in India, those who can save anything, have silver ornaments. Can you estimate how much silver they consume in these ornaments?—I have not tried to form an estimate.

7585. Perhaps you will be able to do so if I tell you why I ask you this question. I am trying to find out what is the actual hoarding in India. My object is to be able to arrive at an estimate of how much hoarding in India there is, and what part of it will tend to be exchanged for gold when gold currency is introduced, what the poorer class is holding and what the richer class is holding, the form of hoards, and after deducting what the average holding for ornaments is, to find what actual coin there is, we will then be able to find out what will be the amount which will be tendered for exchange into gold.—It cannot be much, but I am sorry I cannot give any definite figure. I am not competent to give these figures. After all, it will be a mere guesswork.

7586. (*Chairman.*) With regard to the questions I asked you about the index number, you remember I was referring to the figure to which the Calcutta index number shows an adjustment of prices to the current rate of exchange. I want to be perfectly certain that I have done full justice to your evidence under that head. Shall I be putting your argument correctly if I put it in this way, that, allowing for the rise in exchange, it is necessary to raise the Indian index number by about an eighth, 12 per cent.?—You mean a rise in the exchange?

7587. Yes?—Then it will reduce our index, for, it is the index representing English prices divided by the present rate of exchange and multiplied by the rate of exchange in the base period. So if you want to raise it to 1s. 6d. then the Indian prices index number will be lower.

7588. I am not sure that we are not looking at it from two different points of view. If I may just follow it out in this way to cover your argument, allowing for the variation in exchange it is necessary to raise the Indian index by one-eighth to find the comparative gold price index for India corresponding with the British figure, and the Indian figure of 157 would then become 177 as compared with the British figure of 158?—No, the index figure representing English prices was 156, for September and the index figure representing Indian prices was 158, for the same month. To adjust the Indian index to the present rate of exchange, you multiply the English index by the rate of exchange for the base period and divide the product by the present rate of exchange—that is my calculation. So if you want to raise the rate of exchange above 1s. 4d. this 158 must be much smaller. Indian prices must go down if you raise the exchange above 1s. 4d.

7589. Is your argument that the present exchange is higher or lower than the price parity you want?—Higher than the price parity.

7590. So that, in order to put the Indian figure in the same category for reference, in view of the rise in exchange, we ought to raise it from 157 to 177?—No.

7591. And that suggests to your mind that the present level of Indian prices is too high?—No, the present level of Indian prices, if you take 1s. 4d. rate, is not too high; but unless you raise the Indian price level higher you cannot bring the exchange rate down.

7592. It is really two aspects of the same thing. There is only one supplementary question that I should like to ask and that is this. In expressing that opinion have you taken into consideration that allowance must be made for the heavy general tax which is now in force in India?—No, for, as I have already said, the purchasing power parity indicates only a tendency, that is not conclusive by itself.

7593. But you would agree that, if we are going to consider whether these prices show adjustment or not, we must take into consideration the counter-balancing effect of the tariff in raising the prices of imports into India?—Yes, and the freights.

7594. Further, in order to follow this out, have you considered that there is at present a striking disparity between the index numbers for Indian export and import articles, which, since last July, have stood at such widely different figures as 142 and 199 respectively?—Tariffs have been since then rather too high.

7595. You will see the bearing of my question if I put the final question. If you consider the export index of 142 only and not the import index figure, which is affected by the tariff, then if you make the allowance of 12 per cent. on 142 you do get a figure which is very closely in correspondence with the British index of 158?—Yes.

7596. Would you agree that these are material considerations in working out the evidence of the index number, for what it is worth, as regards the adjustment of prices?—If you mean export prices;—yes.

7597. You have followed me, have you not, in these figures?—Will you kindly repeat your question?

7598. The index for July for goods exported from India which are not affected by the tariff is 142. If you add 12 per cent. to that you get about 158, do you not, or 157, and that is in very close correspondence with the British index of 158 for the same period?—Yes, but why should you take the British general index number and for India the export index number?

7599. Because your import figures are affected by the tariff?—But in England also though this is a minor consideration the figures are to some extent affected by the tariff.

7600. Surely, but that appears in the British index. At any rate, we are not in disagreement that these have to be taken into consideration in analysing the evidence of the index number?—Yes, we have to take it on both sides.

7601. (*Chairman.*) You have to take it on both sides, if there are export duties corresponding to the import duties; but I think we now have the benefit of understanding the bearing of your argument. Mr. Sinha, we are very much obliged to you for your very full assistance to-day and for your memorandum.

(*The witness withdrew.*)

TWENTIETH DAY.

Wednesday, December 23rd, 1925.

PRESENT:

The Right Hon. EDWARD HILTON YOUNG, P.C., D.S.O., D.S.C., M.P. (*Chairman*).

Sir Rajendranath Mookerjee, K.C.I.E., K.C.V.O.
Sir Norcot Hastings Yeeles Warren, K.C.I.E.
Sir Reginald Mant, K.C.I.E., C.S.I.
Sir Maneckji Byramji Dadabhoy, K.C.I.E.
Sir Alexander Robertson Murray, C.B.E.
Sir Purshotamdas Thakurdas, C.I.E., M.B.E., M.L.A.
Professor Jahangir Cooverjee Coyajee.
Mr. William Edward Preston.

Mr. G. H. Baxter, Mr. A. Ayangar, (*Secretaries*).

Mr. Kenneth Campbell and Mr. F. V. Rushforth, representing the Bengal Chamber of Commerce, called and examined.

7602. (*Chairman*.) Mr. Campbell, you are President of the Bengal Chamber of Commerce and a member of the Bengal Legislative Council?—Yes.

7603. And you have with you Mr. Rushforth, who is also a member of the Bengal Chamber of Commerce, in order to represent the views of the Chamber?—Yes.

7604. These views have been set out for us in a very full memorandum,* so that we understand you will be expressing here to-day opinions on behalf of the Chamber and not personally?—The views expressed are the views of the Committee; if you take me outside that, I may not know the views of the Committee of the Chamber and therefore they may be my own views.

7605. Anything further than this memorandum would be your personal view and not the view of the Chamber?—Not necessarily the view of the Chamber.

7606. Will you tell us what is the number of firms who are members of the Chamber of Commerce?—We have firms members, company members and one or two individual members; I think the total number is about 250.

7607. Could you give us a general account of the nature of the business interests which are represented by the Chamber?—They practically include every business that exists in Bengal jute mills——

7608. That is manufacturers?—Yes; and exporters of manufactured jute goods, bankers, brokers, the Port Commissioners, the Railways such as the Eastern Bengal Railway, the East Indian Railway and the Bengal-Nagpur Railway.

7609. We may take it, then, that the Chamber is thoroughly representative of all forms of commercial and business interests in the city of Calcutta?—I should say so certainly; you might add tea to the list.

7610. You mention, in addition, the interests of those concerned in the tea trade?—Yes; and hides and skins and engineering.

7611. So that we have represented in your Chamber both sides of the picture, both the exporter and the importer?—Yes, certainly.

7612. I will, if I may, just ask a few questions in order that you may elucidate some of the leading points in the memorandum of the Chamber. The memorandum, if I may say so, is so full that it will probably not be necessary for me to do anything more than ask questions on points which may seem to require some explanation. Turning, in the first place, to the 3rd paragraph under question 1 (*a*), you are dealing there with the present situation, and the opinion expressed there is that, although you deem it to be of the highest importance that an attempt should be made at the earliest opportunity to solve the currency problem, you do not feel that the present is an ideal time, but that nevertheless if we arrive at the conclusion that stabilisation is feasible the Committee of the Chamber would support remedial action. You then refer to some of the disadvantages of the present situation, amongst others to the uncertainty produced by the possibility of the Government increasing or decreasing their purchases of sterling. As a question of policy, do you consider it desirable, in any future organisation of matters in this respect, that there should be a separation in principle between those exchange operations undertaken by the currency authority for the stabilisation of exchange, such as the buying and selling of international currency at the gold points, and the business of Government remittance to meet the home charges?—I do not think it is necessary to keep them entirely separate; to a certain extent the one may help the other.

7613. The contention that has been put before us is that, in some degree, it has never been fully recognised that the business of stabilisation of the exchange rate should be looked upon as one thing and the business of Government remittance should be looked upon as another thing, and there has been a confusion between the two, leading to a loss of efficiency in both. Have you any opinion to express upon that in this connection?—We have got no complaint as regards the manner in which it has been dealt with in the past. We think they must be dealt with to a great extent together. The mere fact that Government are remitting for purchases must have a bearing on exchange.

7614. Undoubtedly the very large remittances that have to be made by Government must always constitute a very important factor in the exchange market?—Certainly.

7615. Let me put a question to you, in order to elucidate your opinion, in the form of some hypothetical changes. Supposing that a transfer of the control of the note issue and the currency in general were to be made to a central bank, that bank accepting the obligation to buy and sell some form of international currency at whatever are the upper and lower gold points in relation to the established rate; and supposing that the central bank in question were also to be charged with the business of supplying the Government with the means of remitting their home charges, would that, in your opinion or would it not, be an improvement in comparison with past methods in this connection, that is the uncertainty introduced by the possibility of Government increasing or decreasing their purchases of sterling and thus affecting the rate of exchange?—I take it, Sir, that before it was handed over to the central banking authority the rupee would be stablised.

7616. Some rate would be adopted for stabilisation?—If one gets stabilisation and Government have to buy and sell at the upper and lower gold points, it rather gets over our difficulty of not knowing when Government will operate.

* Appendix No. 37.

7617. In the next paragraph you refer to the absence of facilities for an automatic regulation of the volume of currency. That I will leave for the present because we can discuss it more closely a little later on. In the paragraph after that you refer to the circumstance that if there were again to be a divergence, that is, between sterling and gold, the present fixation in terms of gold would result in further fluctuations in terms of sterling. I refer to this as another point in your memorandum upon which I will ask a question a little later on. Now I come to the last paragraph but one under this head, where you say: "Further with regard to internal conditions the Committee would point out that India has experienced four good monsoons in succession and it is not unreasonable to anticipate a bad monsoon or more than one in the near future. They are not convinced that in such an event the resources of the Government would be sufficient to maintain exchange at its present level without undue disturbance to the money market, and an unsuccessful attempt to support the rupee would have incalculable effects." Now as to that, are you of opinion that the success in maintaining whatever level is accepted would depend chiefly upon two things, first of all, upon the circumstance whether or not internal prices in India had adjusted themselves to the level which it is sought to maintain, and, secondly, whether the size of the reserves maintained for the protection of exchange was adequate? Are those the two things to which we must look when we are considering whether any particular rate can be maintained against the pressure of one or more bad monsoons?—I think that covers it, as long as Government can use the reserves to the extent that is necessary, that is, the home reserves, and at the same time they do contract the currency in India against everything that is issued out of the home reserves.

7618. As you very rightly add, you must consider not only whether the reserves are big enough but whether they are properly used?—Certainly.

7619. Have you an opinion upon this question. Take any rate that may be chosen. Supposing that internal prices have adjusted themselves to that rate and supposing that the size of the reserves is adequate and that they are properly used, would there be any greater difficulty in maintaining one rate rather than another in the face of such adverse circumstances as the two bad years? If that is rather a theoretical question with which you would prefer not to deal, do not let me press you upon it, Mr. Campbell?—(*Mr. Rushforth.*) May I answer that, Sir? It seems to me that it is not only a question of the size of the reserves or whether one uses them properly but whether one can as a practical proposition use them properly. The experience in 1920 in the falling market when they were endeavouring to utilise those reserves was that they could not; it was not a practical proposition to contract the currency in order to make the mechanism of exchange work as it should do in theory. If you are controlling internal prices by means of contracting your currency at the ports where sterling exchange originates in the first place, you may, before you have affected your prices sufficiently, create a financial crisis in the trade centres, Bombay and Calcutta, and it seems to me that as these two places are the buffer between your external conditions and your internal conditions Government will always have to consider whether they should work out the theory of contraction of currency to its logical conclusion.

7620. In the case of 1920 to which you refer it was, as you tell us, at any rate the case that the currency was not contracted?—It was to some extent to begin with.

7621. Not to the extent to which the reserve was depleted?—No.

7622. Was that due to the circumstance to which you refer of the danger of creating a crisis in the financial accommodation, or was it due to other external circumstances, such as the very large public expenditure to which the Government of India was then committed?—Speaking from memory, I think it was due to the very large possibility of a financial crisis here. I remember money had at that time gone up to 8 or 9 per cent. at call and I know the banks were very nervous that if the policy was continued there would be a crisis.

7623. You have described the imperfection of the way in which the machinery worked for the support of exchange and the control of currency. To what do you ascribe that? What was the cause of that breakdown in the machinery, leading to the further question, what is the remedy owing to the circumstance that you find you cannot contract the currency to the extent required?—I should say to use a simile that the shock absorbers in Bombay and Calcutta were not sufficient to take the pressure of the sudden drop in foreign prices.

7624. The shock absorbers being what, in that case? —The money markets of Calcutta and Bombay.

7625. The resources of those two money markets could not be mobilised in time; and they were not sufficiently liquid. Is that the difficulty?—I think it was that the sudden withdrawal in a few weeks of many crores of rupees from the money market before stocks could be liquidated was likely to cause a crisis.

7626. Is that a state of affairs which you ascribe at bottom to an imperfection in the then existing currency system, or would you ascribe it to imperfections in the conduct of the banks, the policy pursued by the outside banks, and the general trading community?—I don't think I should call it an imperfection. One would say it was due to the conditions in a country like India where your money markets are highly centralised in Bombay and Calcutta and where operations in those places take a good deal of time to have their effect on prices in general in the country as a whole.

7627. The conditions you describe seem to be rather independent of any system of currency which might be in force?—I should say so, Sir.

7628. The difficulties to which you refer are difficulties which would have to be confronted under any currency system?—I think so.

7629. In the next paragraph you say that "if the Commission are not convinced that Government can make any selected rate permanently effective it would be preferable, the Committee think, that Government should confine their exchange operations to moderating the swing of the exchange pendulum rather than endeavour to bring about equilibrium at a rate which would be unsuitable to Indian conditions." Supposing it to be so, would it not be the case that, even though this view were adopted that the Government should confine their exchange operations to moderating the swing of the exchange pendulum, there would nevertheless have to be some rate present to the minds of those who act on behalf of the Government as, shall we call it, the normal rate. If I may put it in this way—a pendulum swings about some point, does it not, so that, even though you are only moderating the swing of the pendulum, you must be looking at some point in order to reduce the swing of the pendulum to that point?—(*Mr. Campbell.*) Our idea was that they would have such a rate all the time at the back of their minds but that they might alter it. For instance, if the rate was as it is now at 1s. 6d. and they became convinced that exchange must go up perhaps to 1s. 7d., they would not let it swing up to 1s. 8d. or 1s. 9d. If they thought 1s. 7d. was about the rate at which they could stop it without upsetting us locally, they would gradually let it go up to 1s. 7d. and then stop it there; altering rates gradually to 1s. 7d. from 1s. 6d. What we would not like them to do would be to endeavour to keep it at 1s. 6d. when the tendency was upwards all the time, and then suddenly give it up as a bad job and let it go to 1s. 9d. In the same way, if the tendency was downwards, we would not like them to hold it up at 1s. 6d. and then let it go down perhaps with a jump to 1s. 2d.

7630. One might put it in this way, that under any circumstances you must have some rate in your mind, though under the circumstances to which you refer you would prefer that it should be only provisional?—Yes.

7631. Turning to the next question, 1 (*b*), you say that you favour stability of exchange as against comparative stability of internal prices brought about by a fluctuating exchange. Does your Committee base this opinion upon the importance of a stable exchange rate as a basis for the external trade of the country? I think that is really the opinion expressed in the preceding part of the paragraph?—What we want is that as far as possible our prices, through a stable exchange, should follow prices in other countries that are based on gold.

7632. I understand from this paragraph that you lay special emphasis upon the necessity for a stable exchange as a facility for the conduct of the export and import trade of the country?—Certainly.

7633. And I understand that it is your opinion, as expressed in your last answer, Mr. Campbell, that if you stabilise the rupee in relation to gold then Indian internal prices will follow world gold prices?—That we think would be the tendency.

7634. That in your opinion would be the maximum degree of stability in internal prices which it is desirable to seek to maintain?—Certainly.

7635. In paragraph 1 (c), on the rising and falling rupee, you say that " it is a truism that ultimately it is immaterial what level is chosen, as prices and wages will in course of time adjust themselves to whatever rate of exchange may be made effective." Are you aware of any special circumstances in Indian conditions which make that proposition less true for India than it is for other countries?—I don't know that I know sufficiently about other countries to be able to compare the two. But our idea was that the only thing that is not ruled by that is forward contracts for a period of years.

7636. Do such contracts bulk more largely in economic and social conditions in India than they do say in Europe?—I cannot say with authority, but should not think so.

7637. Is there any special class?—Certainly not in our business.

7638. Business methods being here the same as elsewhere, one would hardly expect to find any great difference?—I do not know of any great difference.

7639. Nevertheless in this connection special consideration might have to be given to such settlements although they may not be contracts, such as the land settlements?—I have included them in forward contracts.

7640. Then you say: " It is just as unfair that the reduction of the home charges of the Indian Government should be considered a reason for the enhancement of the value of the rupees as that possible benefits to the agriculturist should be made an excuse for inflating the currency and reducing the value of the rupee." Your third point is: " After a period of fluctuating exchange it is obvious that the fixation at any point cannot be universally equitable, but the object to be aimed at should be to cause as little fresh disturbance as possible." I want to find out what you imply by fresh disturbances. What would be the cause of such fresh disturbances as those which you deprecate?—Our idea is that exchange is now 1s. 6d. and that everything has settled down at that price, and a variation upward or downward will cause a fresh disturbance and alter the relation between debtors and creditors as compared with what it is at the present moment.

7641. Then in the next paragraph your Committee think that " it is desirable that the rupee should have a fixed relation to gold, which is the basis of the currencies of the countries with which India conducts the bulk of her trade." Could you give the Commission the benefit of your opinion as to the relative advantages of a fixed relation to gold and a fixed relation to sterling?—Our idea is that gold and sterling are the same thing, and that they should continue the same thing if we are going to stabilize. If sterling and gold are going to leave each other again, we think the time is not ripe for the stabilization of the rupee, as such a large amount of our business is done in sterling.

7642. I understand the opinion of the Chamber is that stabilization should only be undertaken if we are reasonably convinced that gold and sterling are to remain pegged?—Yes.

7643. If, on the other hand, there is a reasonable apprehension that sterling may be divorced once more from gold, would your recommendation be that there should be a stabilization in relation to gold, or would it be that there should be no stabilization for the present at all?—I think that it ought to wait.

7644. You would not recommend a stabilization in reference to gold if there is a danger of gold and sterling being divorced?—I would not.

7645. I understand that is because of the practical inconvenience which would result to India's external trade in having her standard of currency fixed in relation to some currency other than that in which the bulk of the external trade of India is settled?—Certainly.

7646. I further understand that your Committee is not prepared to express any opinion as to whether it is reasonable or unreasonable to forsee any future divorcement between sterling and gold?—One has read a good many remarks as to whether sterling and gold can remain together. Our idea was that when the Commission get home, a certain amount of time will have elapsed and they will be able to get information in England which we cannot get here, and then should be able to come to an opinion as to whether sterling will remain with gold or whether there is any possibility of it leaving gold. We are not competent to express any opinion now.

7647. Basing, as I understand, its opinion upon what you have told us about the undesirability of a fresh disturbance, your Committee arrive at the conclusion that, if the rupee is to be stabilised, it should be at the rate of 1s. 6d.; and I further gather that the reasons for that are two, in the first place, as you have said, the avoidance of disturbance, amongst which you specify in particular the circumstance that to force the exchange down to 1s. 4d. would involve a rise in prices and thus a higher cost of living for the poorer classes—that is the first reason?—Yes.

7648. The second reason is that at 1s. 6d. in comparison with 1s. 4d. you have a bigger margin with which to confront any rise in the price of silver. At the same time you would deprecate equally any attempts to raise the rate to 1s. 8d. What are the specific evils which you would apprehend from such a policy as that, from raising the rate to 1s. 8d?—As we say here, it would necessitate a considerable deflation and the readjustment of conditions generally. We do not want a readjustment of conditions.

7649. That argues that conditions are adjusted at the present time to the 1s. 6d. rate?—We consider they are.

7650. Setting aside such evidence as is provided by index numbers, which is the first evidence to which one would refer, are there any other sources of information to which you can refer us from which we can ascertain whether or not the internal prices are now in adjustment with the 18 penny rate?—We think that the trade of the country is extraordinarily good at the present time, which we think is an indication that things have settled down at the present rate of exchange. The Viceroy quoted certain figures in his speech to the Associated Chambers of Commerce the other day which went to show that the trade of the country at the present time is better that it has ever been.

7651. If the rupee were either overvalued or undervalued externally in comparison with the internal value, I gather you would expect that to be imposing a handicap either upon exports or upon imports which would reflect itself in adverse conditions in

the general trade of the country?—I think it would affect the trade of the country.

7652. From the absence of such an adverse state of affairs and the comparatively prosperous state of affairs you argue that the rupee is neither overvalued nor undervalued externally, but that there has been such an adjustment as facilitates foreign trade in normal channels?—Yes, we think that trade is very good which goes to show that the present rate of exchange is right.

7653. In order to make the basis of your view quite clear, in the last words of the paragraph under question 3 you say that "the rate to be selected ought to be the rate current at the time of selection." We should be right, I gather from that, that you select the 1s. 6d. rate not as having an absolute advantage in comparison with any other but because it happens to be the rate to which, in your opinion, prices have now adjusted themselves, and that if it happened to be some other rate you would have recommended that other rate?—Yes, if we were equally satisfied that everything had been adjusted to it, and that it would not be an abnormal rate.

7654. Now we come to the question dealt with in your following paragraphs as to the basic currency system for the country. Might I summarize your recommendations by saying that you recommend as an immediate measure the adoption of an improved gold exchange standard and as an ultimate end towards which to work the introduction of a gold currency?—Yes.

7655. In the first place, then, we have to deal with the measures which you recommend in order to establish an improved gold exchange standard. You say at the head of the paragraph under questions 4 (*a*) and (*b*): "Under the pre-war system in order to avoid unnecessary movements of gold Government frequently entered the exchange market through the medium of the sale of Council Bills or Reverse Councils as the case might be, thereby facilitating trade remittances in whichever direction the demand might arise. This system insured stability for a number of years and the Committee would be disposed to favour its re-introduction." Your Committee recommend the method of sale of Councils and Reverse Councils in preference to the recently introduced method of the direct purchase of sterling in India?—No, Sir. We answer that question in paragraph 7 (*a*). What we are discussing here is whether Government can keep exchange level by Councils and Reverse Councils or purchasing in India or wherever it suits them to do it or whether the gold should actually be shipped backwards and forwards.

7656. What would the opinion of your Committee be as to the relative merits of the two methods, the method of Council Bills or the method of purchase of sterling in India?—That I think is fully answered in paragraph 7 (*a*).

7657. It is answered by the recommendation that the remittance operations of the Government of India should be conducted by the Imperial Bank? You say that the Government should be free at any time to adapt themselves to the conditions of the moment, etc. Of course I follow that, if the remittance operations be conducted by the Imperial Bank, that involves an abandonment of the method of Council Bills?—Yes, but they might use tenders.

7658. I will ask you about tenders later. I gather that you are not here expressing an opinion hostile to the present method of purchase of sterling in India?—No, Sir.

7659. Then you make the recommendation that your Committee "think that an undertaking should be given in respect of both the maximum and minimum rates of exchange in any future scheme of stabilization," so that the obligation should he equally to buy and sell?—Yes.

7660. You look upon that as an essential feature in a scientific gold exchange standard system?—Yes.

7661. In paragraph 4 (*c*), as regards the composition of the gold standard reserve, you recommend "that it should contain a considerable proportion of gold." What is the basis of that recommendation?—Our feeling was that it might be required in gold and that it might not always be easy to get gold.

7662. Might we put it in this way, that if you keep all your reserves in securities, even though they be short term securities, you may find your reserve unduly demobilised at a time of crisis?—Yes, Sir, and export of gold might be prohibited or some such regulations might be brought in by which India would not be able to get gold, if she does not actually possess it.

7663. As regard the location of the actual gold portion of the reserve, is there any opinion held by your committee as to what that location should be?—The gold to be held in London?

7664. The gold held in the gold standard reserve. I think you state in the third paragraph that a portion of the gold should be located in India?—Yes, that was our idea, a portion in England and a portion in India.

7665. And such gold as is held in England should be earmarked? That is also one of your recommendations?—By earmarking we mean that we can always get it even though export were prohibited and also it can be taken without disturbing the London market. We did not want it to be included in the gold balances in London.

7666. Even if it be held in the gold balances in London, it would serve as a basis for credit in India, would it not? Does it make any real difference whether it is earmarked or not?—We do not know what the word "earmarked" quite means in London. All that we meant was that it should be entirely in a separate place of security and should be there whenever India wanted it. Whether they actually use the expression "earmarked" in the Bank of England I do not really know.

7667. Ignorance as to what the phrase "earmarked" means is not an ignorance peculiar to yourself. The question is whether it makes any real difference as regards its use as a basis of credit and where the credit is employed whether it is earmarked or not. You are trying to supply the word "earmarked" with a meaning by assuming that it means that the Bank of England makes a public announcement that they have gold to the amount of A in their vaults that belongs to the Government of India?—(*Mr. Rushforth.*) We want to be quite sure that no regulations regarding the control of gold in London apply to that particular gold. There is a strong feeling that the Indian gold in London is not always available and our idea was that we should have absolute control of any gold that was left there.

7668. Why should that gold be held in London rather than in India?—Because it saves the expense of shipment. It is obviously uneconomical to get gold backwards and forwards and in order to meet Indian sentiment in that way and to allay any sort of suspicion that the gold left in London is not really Indian gold, I think it might be earmarked in some way so that there may be the satisfaction that it could always be got under any circumstances.

7669. Whether or not that would be a positive satisfaction becomes rather a psychological question?—Yes.

7670. Finally, you complete your structure for a scientific exchange standard by your important recommendation that when the gold exchange reserve is drawn upon for exchange purposes a corresponding contraction of the currency in India should be made. Is it possible to amplify at all how you would ensure that the contraction should be made on the reduction of the reserve?—I think one would have to lay down that the gold standard reserve should be used for purposes of transfer only, that it should not be used for purposes of loan.

7671. What does "transfer" mean?—By transferring, you transfer from the gold standard reserve in London to the Treasury balances, and from the balances to the gold standard reserve in India. Any

operations would be in the nature of transfers from London to India.

7672. Would that secure an automatic contraction of the currency in India?—Provided your gold standard reserve in India were held apart, as a separate reserve.

7673. I do not quite follow for the moment how that would make it impossible to let out the Indian currency after it had come in again. I will put it in this way. What one wants to ensure is that, once local currency has been brought in for the purpose of some form of international payment, the fact that the international payment is made out of the reserves and has reduced those reserves makes it impossible that that currency which has been paid in India should get back into circulation in any way, and the question arises what machinery will secure that end?—In olden days they used to lock up 6 crores of rupees in a special currency vault and they could do the same sort of thing again. If people tendered 2 crores of rupees for 2 million pounds of gold standard reserve, those 2 crores of rupees would be locked up thus.

7674. That was done as a matter of policy and not as a matter of obligation. What we desire to secure is that it should be a matter of obligation that there should be some provision that would make it impossible to let out that currency?—Yes.

7675. Would it lead to such an obligation if we were to adopt your suggestion that the gold standard reserve should be used only by way of transfer and not by way of loan?—I do not quite know if that would be the technical way of expressing it. There should be some sort of statutory obligation. I understand at present there are no statutory rules for governing the gold standard reserve.

7676. There would have to be some sort of statutory obligation that a reduction in the reserve should be linked to a reduction in the internal currency?—Yes.

7677. Now I turn back to a central feature of your proposals, to the second paragraph of 4 (*c*). You say that the gold standard reserve " should be allowed to increase to a much larger figure than £40 millions " and the profits on coinage should continue to be added to it. I imagine it would be imprudent to look for any profits on coinage in the near future, would it not?—(*Mr. Campbell.*) No; we do not anticipate any profits on coinage.

7678. " Together with the interest on the investments "?—That is a considerable figure.

7679. " No decision should be arrived at as to its ultimate size, as it might be permitted to increase until it was large enough to allow of the introduction of an effective gold standard." I understand that it would be your policy thus to increase the gold reserve with a view to using it some day for the introduction of a gold currency. Have you been able to give any consideration as to the actual measures by which you would ultimately proceed, when your reserve was big enough, to introduce the gold currency?—We had not thought anything out in detail. Our idea was to start gradually with a large value gold coin. We mention it in paragraph 6 (*a*).

7680. The measures to which you look forward are the measures referred to in paragraph 6(*a*)?—Yes.

7681. We will deal with those when we come to them. You are in favour of the idea " that the note issue and the whole of the monetary reserves should be under the control of a central banking authority," and you say, " this would involve the reconstitution of the Imperial Bank of India." I understand that the principal measures of reconstituting the Imperial Bank to which you refer are, firstly, that the shareholders should become consultative and advisory with a limited interest in the profits; secondly, the transfer of the personnel of the Currency Department; thirdly, that in the new constitution of the Imperial Bank the Government should have a large measure of control. As regards this third essential in reconstitution, I gather it is the opinion of your Chamber that the Government has not at present a sufficient measure of control over the Imperial Bank?—It is rather difficult for me to say. I have nothing to do personally with the Imperial Bank and I do not really know how much Government do exercise the control which I believe they could exercise if they wished to do so.

7682. What is known to the public is the present constitution of the Imperial Bank as regards to appointment of Managing Directors by the Government, and so forth. In considering that formal constitution, would it be the opinion of your Chamber that that did not secure a sufficient measure of control to the Government?—Our view was that the whole matter would have to be very carefully considered. We have not got very much information regarding it and we thought the matter would require the fullest consideration; the whole scheme would have to be gone into from beginning to end and considered at one time.

7683. The principle upon which you are proceeding in the recommmendations being that the Imperial Bank should be substantially controlled as to its policy by the Government?—Yes, Sir. We do not want too much Government control but a sufficient control.

7684. To secure what ends should the system of control be devised? Is it to secure that the general policy of the Bank, as regards control of currency and exchange, should proceed from the Government?—I think that should be supervised by Government.

7685. One feels that the practical difficulty is whether the Government is actually to give the Bank its policy or whether the Government is only to have power to intervene if it does not approve of what the Bank is doing; or, to put it in another way; whether the Government is to be the actual active controlling power as regards currency policy or whether it is only to have a power of veto and (I use the word in no derogatory sense) interference to protect the public interest. Which would you look upon as the ideal to be served?—I think the latter. We think that the Bank people can probably do best but we would like the Government to keep an eye on it and as far as possible not to interfere but if necessary to exercise their veto.

7686. It is common in other countries to deprecate Government control of a Central Bank of issue on the ground that Government control means a danger of political influence. Have you given any weight to that consideration?—We are very much against political influence. We think that business people can run a bank better than the politicians.

7687. Are you of opinion that Government control can be secured in such a manner as to obviate the danger of political influence upon currency policy?—If we were to hand it over to the Imperial Bank I think it would be a step in that direction; political influence is more likely to be avoided than if it were left entirely in the hands of the Government.

7688. Finally you say in this connection that every precaution should be taken to prevent the creation of a banking monopoly. In that connection, does your Chamber recommend any restrictions upon the classes of business in which the Bank may engage? In view of this recommendation one is concerned to enquire what is the nature of the precautions that you recommend to prevent the creation of a banking monopoly?—Our view was that that point should be considered in detail when the whole thing was gone into and it was a general recommendation that monopoly should be avoided.

7689. Might one put it in this way, that your recommendation is a general recommendation that the Central Bank should be a bankers' bank, and that it should not be in a position to make use of its special advantages to enter into competition in ordinary business with other banks?—Yes, except in places where other banks do not exist. We think

it ought to be a trading bank. To encourage banking in the country it has got to be a trading bank in certain places in order to open up banking throughout India.

7690. Can you express any opinion as to whether it is practically possible to limit the business which the Bank can conduct in one place and to remove those limitations as to the business which it can conduct in another place. Is that possible for a bank?—I think you can distinguish between external and internal business to a great extent.

7691. That is a distinction between the general nature of the business which it is to conduct, not a distinction between the business which it should conduct here and the business which it should conduct there?—We have not gone into that point in detail.

7692. In paragraph 5 (*d*) you deal with the question of the rupee note and small notes in general. I understand that, generally speaking, your Chamber are in favour of the one rupee note?—Yes, Sir, it was very much appreciated.

7693. And they regretted the decision of the Government to withdraw it?—Yes.

7694. I understand that was based upon your practical experience. As you say, the note was readily accepted, and it quickly became popular, especially in the jute districts?—Yes, Sir, in Eastern Bengal.

7695. We have been told, on the other hand, that the note was unpopular because it was not infrequently destroyed in the hands of the holder, and that it was looked upon therefore as an undesirable form of currency. Have you any comment to make upon that?—There were certain complaints about it when it was first introduced but I think the number of these one rupee notes which went into circulation is a proof that they were exceedingly popular with certain classes of people.

7696. Then you adduce the further reason in support of the one rupee note that, if at any future date it became necessary to restrict the issue of silver rupees, you would already have a medium of circulation which the people were used to and could make further use of in substitution for the rupee?—Yes, Sir, if you suddenly came out with a new issue it would be more likely to create suspicion than if the issue which was already going was further extended.

7697. So that you look upon the one rupee note as a further insurance against the evil consequences of any overtaking by the price of silver of the bullion value of the rupee?—It might be useful in a temporary crisis.

7698. Now we will resume consideration of your proposals for the ultimate introduction of a gold currency. I understand your first proposal is that you should introduce a convenient gold coin. That would be an Indian gold coin, as I understand?—Yes.

7699. As an essential of that you would have a mint at work which would freely coin gold brought for coinage?—We did not think it was absolutely essential. We thought it was a matter of cost, whether it was cheaper to get one's gold coined in India or elsewhere, but we are not against an Indian Mint coining Indian coins. In fact I think Indian sentiment wishes it and we have got no objections to it.

7700. You consider that the matter of sentiment is something to be positively weighed against the question of any additional cost?—Yes, provided the cost is not out of all comparison.

7701. This gold coin should be so adapted as to give a convenient relation to whatever ratio is fixed for the exchange value of the rupee?—Our idea of a gold coin was that it should be of so many rupees; exchange value would not come in.

7702. Thus, if the ratio of 1s. 6d. were adopted, avoiding the difficulty of having imperfect fractions of rupees in the gold coin to be made current?—Yes.

7703. Could you amplify your proposals by telling us how you would put this gold coin into circulation?—Our view was that it could only be done slowly and according to the circumstances which obtained from time to time. It might be possible to do it more one year and less in another but we could not state any definite amount that should be given out from year to year.

7704. That would depend, no doubt, upon the rate at which your gold in the gold standard reserve was depleted?—To a certain extent, yes.

7705. Would it depend upon anything else?—(*Mr. Rushforth.*) It would have to come out of the paper currency reserve in the first place, in exchange for rupees?

7706. That is the way in which it would get into actual circulation, that rupees would be brought in and gold would be let out of the paper currency reserve?—That is what would happen.

7707. And then what? The paper currency reserve would receive transfers of gold from the gold standard reserve?—(*Mr. Campbell.*) Yes, and the gold standard reserve make up the difference against the melting down of the rupees which they brought from the paper currency reserve.

7708. Receiving as a credit against the debit whatever was realised on the sale of the bullion in the rupee as and when it was required?—Yes, the gold standard reserve would make good the deficit on the rupee as between its face value and its bullion rupee.

7709. Therefore the extent to which you can undertake the encashment of rupees in gold would depend upon whatever surplus there was in the gold standard reserve?—Yes; it would eventually.

7710. And that would depend upon the rate of accumulation of interest in the gold standard reserve?—Yes.

7711. I understand you would undertake the obligation to give gold against rupees precisely in proportion to the gold available for the purpose from the gold standard reserve?—Yes; I take it you would decide how much was available for that object, and then give it out accordingly.

7712. The cost of that would be the cost of the loss of interest on the gold standard reserve?—(*Mr. Rushforth.*) The gold standard reserve would actually be reduced in amount; it would not be in the nature of the transfer transaction that you referred to previously.

7713. You would fix no doubt in the first place some minimum for the gold standard reserve below which you would not make use of this gold?—I think one would have to settle from time to time how much you can spare.

7714. If one assumes that the gold standard reserve is not to fall below its present amount (let us make that assumption for the present), then the cost of your gold currency would amount, would it not, to this, that you are no longer receiving, as you are at present, in relief of revenue the interest on the gold standard reserve?—Yes.

7715. Then ultimately you look forward to the time when you will make the rupee no longer legal tender?—(*Mr. Campbell.*) Yes.

7716. Do you contemplate that before that is done it is necessary to give the holders of rupees an opportunity of converting them into gold?—Yes.

7717. You would not, therefore, dethrone the rupee until the holders of rupees have had an opportunity for such conversion?—I would not.

7718. And you would not be able, therefore, to undertake the final dethronement of the rupee until you had sufficient gold accumulated to undertake the legal obligation to convert into gold whatever amount of rupees you estimate might be presented?—Yes.

7719. You say "it will be necessary, the Committee think, even when a gold standard is established, to provide a gold exchange reserve or a suitable proportion of the currency reserve, in London to meet

any temporary crisis caused by an unexpected weakness in exchange." I may be wrong, but I rather gather that the basis of that recommendation is this, that you have used your gold to some extent by putting it into circulation; that gold in circulation, according to common experience, is not readily available as a means of international payment for the support of exchange; and, therefore, you come to the conclusion that it is still necessary to keep some special reserve to supplement the gold in circulation in support of the external value of the internal currency?—Yes; we felt that there might be a time when it might not be possible to move the gold or get the gold sufficiently quickly to send it home, and it might be necessary to have a certain amount of gold there to draw on until that difficulty had passed. We understand that in other countries it is done; for instance, England at present has got large credits in America to tide over any difficulty like that; and we have been told also that Japan has gold in both England and America for this same purpose.

7720. Great Britain would hardly be a case in point, would it, because in Great Britain, under our present system, the internal currency is inconvertible and there is no gold in circulation; we are in substance on an exchange standard?—Yes, that is so.

7721. But here your recommendation applies to a state of affairs where there is gold in circulation and the internal currency is convertible?—Yes; it does not apply quite to the same extent; but the idea is the same, namely, to tide over a difficult period.

7722. If the convertibility of the note circulation under these conditions of a gold standard were adequately protected by the paper currency reserve, and if the gold in circulation were readily available for export, then there would be no necessity for any further reserve for the protection of exchange, would there?—No foreseeable necessity; but we are particularly anxious not to risk anything.

7723. One question on the remittance business, as to which you have already been so good as to answer one or two questions. You say towards the middle of paragraph 7: "On the other hand, in a falling market it might be advisable for the Government to adopt a different method, possibly to revert to tenders in India or in London." Can you explain why the method of tenders is specially to be recommended in the case of a falling market?—*(Mr. Rushforth.)* We only think that the Government should be at liberty to adopt that method, if they found that by entering a falling market they did not cause too much disturbance. We do not think their hands ought to be tied in any way at present.

7724. That general point of policy would apply, would it not, to operations in the market in either sense, rising or falling? You reserve it here to a falling market: I thought perhaps there might be some special point in that?—*(Mr. Campbell.)* A falling market is always a more difficult market to deal with than a rising market; we merchants always find that.

7725. At the end of that paragraph I find a special explanation that by the word "Government" the Committee means the Government of India, as they consider that the Government of India are in a better position to regulate these operations than the Secretary of State. Is there anything to be said in amplification of that opinion?—I think not, except that we think they are more closely in touch with the actual position and therefore have a better idea of the feeling of the market.

7726. You say in your final paragraph under this heading: "The Government will be unable for a considerable time to come to divest themselves of responsibility to the public for the maintenance of exchange at whatever ratio may be fixed, and it will be necessary therefore for them to retain full control of the management of remittances, though the actual operations might be conducted through the Imperial Bank as at present." What would be the effect upon your opinion in this matter were your recommendation to be adopted as to the transfer of the control of the note issue and the responsibility for exchange to a central bank?—We say the Government would be unable for a considerable time: we thought it was bound to be a considerable time before any such transfer to the Imperial Bank could possibly be made: our advice is that it could not be done under two or three years.

7727. You contemplate that, when the transfer of the note issue and the responsibility for exchange is made to the central bank, it is natural that the central bank should also conduct the remittance business of the Government of India?—I think we would like to see that; it is a matter which has to be considered in detail when the transfer is made, as also the terms of the transfer.

7728. Lastly, we come to the question of seasonal elasticity in the currency system. I understand there that you express general satisfaction with the basis of the present system?—We like the results, but we do not quite like the way it is done.

7729. What are the criticisms to be made upon the way in which it is done?—The bills which are deposited with Government by the Imperial Bank are not bills against actual goods; they are purely accommodation Bills. The actual position is that a great deal of raw material is purchased by buyers in Calcutta; they pay cash (or very nearly cash) for the material from up-country, and do so by operating against a current overdraft from the Bank. When the Bank want bills to deposit with Government in order to get more currency they ask the people who have got overdrafts to draw bills and then give them the money against the Bill instead of against the overdraft. The result is really that it is only a bill in reduction of an overdraft and not a bill against goods which remain to be paid for. In practice the result is the same, because though in the first place the goods have been debited against overdrafts, they are afterwards reallocated against the bills; but it is not quite right.

7730. It is true that there is no bill in the first place, and that somebody has to be stimulated into producing a bill to serve as a security; but as a matter of fact the transaction by its nature is one which is appropriate to be financed by a trade bill?—Yes; we agree; only the original bill is not drawn as it should have been.

7731. It does not mean that the bill, when it comes into existance, is any the less a real trade bill because it is brought into existance by somebody being stimulated to make it?—It is not drawn by the original owner of the raw material, the man up-country who sends, say, jute down to Calcutta; he does not draw the Bill; he has been paid cash.

7732. The criticism of the system really is that, owing to the course of business in India, there are not enough real trade bills drawn to provide the necessary basis for the seasonal currency?—Yes; I understand there are practically very few trade bills drawn. It is not the custom of the country and we should like to see that increased.

7733. That suggests that there are two possible policies to be adopted; (1) either to find some other basis for the seasonal increase of currency in addition to trade bills, or (2) to adopt measures to increase the number of trade bills available?—Yes.

7734. And I understand that your Chamber recommend the latter course?—Yes.

7735. Opportunities should be given in order to promote the number of trade bills which come into existence?—That is our view.

7736. And the opportunities which you actually recommend are the abrogation of the stamp duty, in the first place, and, secondly, that the Government should set an example by insisting on suppliers drawing bills on them for goods supplied to them?—That is so, to encourage the bill habit in the country.

7737. You do not make any suggestion as to the enlargement of the nature of the securities against

which the seasonal increase in currency may be brought into being?—No, Sir, we think the securities are quite good. It is only the manner in which the bills are drawn which we think is wrong.

7738. (*Chairman.*) Now I will ask you to be good enough to deal with any supplementary questions which my colleagues may have to ask you upon the memorandum.

7739. (*Sir Norcot Warren.*) I refer you to question 5 (*a*) under which you say: "In the new constitution of the Imperial Bank, Government should have a large measure of control, and every precaution should be taken to prevent the creation of a Banking monopoly. The interests of the Exchange Banks and indigenous Banks should be carefully safeguarded." Am I right in assuming that what your committee desired to emphasise is that, whilst desiring a clearly defined co-ordination of banking interests for the benefit of the country as a whole, they are anxious that nothing in the nature of a monopoly shall be permitted and that a definite demarcation of banking interests shall be arrived at whereby the operations of the Central Bank shall not clash with or prejudice the interests of the exchange or indigenous banks? Am I right in assuming that that was what was in the minds of your Committee?—Yes.

7740. A little further on you say that the Imperial Bank should "encourage the banking habit throughout India by opening new branches, but as a general rule new branches should not be opened in places where other well-conducted banks already exist." Could you tell me exactly what was in the minds of your Committee when they said that as a general rule new branches should not be opened in places where other well-conducted banks already exist?—Our view was that the Imperial Bank should open new branches in order to encourage the banking habit. Presumably the Imperial Bank will only be able to open a certain number of new branches and if there is already a well-conducted bank catering for the banking business in a particular place, we would rather see the Imperial Bank go somewhere else than to the place where banking facilities have already been provided.

7741. Well, that is only considering the banks. But shouldn't we consider the people who deal with the Banks? For instance, we have opened a hundred branches, as you know, up to the 27th of January next. And the opening of these branches postulates a degree of unavoidable competition with other banks but in my opinion this is not necessarily unhealthy and the absence of it must, I think, be of doubtful benefit to the trade and to the country generally since a monopoly must tend to lead to excessive rates which is bad for the development of trade. As a matter of fact, I have had an examination made of the effect of the opening of the Imperial Bank at a number of the larger new branches and I am satisfied that the general tendency of the Imperial Bank's operations at these places has been to reduce to a more reasonable level the rates for bills and remittances. Isn't that all for the good of the country?—Provided that the banks already there have a reasonable margin of profit. If there is a bank already in existance at that place, we don't want the Imperial Bank to come along and cut the rates so fine that that bank has to go out of existence.

7742. You mean to say you advocate one bank in one place able to charge any rates they like because there is no competition?—I said well-conducted bank.

7743. Well, a well-conducted bank can charge high rates?—We don't consider that it is a well-conducted bank if it charges an exorbitant profit.

7744. I have known cases up-country where they have charged excessive rates?—By well-conducted banks we meant banks that do not charge excessive rates.

7745. Don't you agree that competition is good?—To a certain extent, yes, as long as there is a policy of live and let live.

7746. Well, suppose you had a well-conducted bank up-country charging 8 per cent., say, for a loan for six months and another bank came along and charged 6 per cent., you would not call this reducing the rate very much?—It depends on the conditions of the money market in India. 8 per cent. might be reasonable or unreasonable.

7747. The only way you can bring rates down, in my opinion, is by competition, and I personally would welcome more banks up-country in every place?—From the merchant's point of view, quite so. But if there is too much competition there may be not more banks but less banks. If you are going to drive out other banks, on the whole eventually you *will* end up with less banks than you started with.

7748. Then you think we are hurting the indigenous banks at these places where we have opened?—I don't say that. I cannot speak with authority on the subject.

7749. You read "Capital", and I suppose you have seen that the Allahabad Bank's dividend, since the Imperial Bank opened in 1921, has been at the rate of 18 per cent., whereas the Imperial Bank has only paid 16 per cent. So we cannot have done much harm?—We are not talking about the past, Sir. This is a recommendation for the future.

7750. But what I want to get at really is, why you should object to our opening in places when other banks are there already?—I don't object if there is room. If there are two banks there and there is room for a third, we have got no objection, especially if the banks there are not being managed properly.

7751. Well who is to decide?—I think it is a matter for the Imperial Bank.

7752. But the other banks might object?—Perhaps they will. But these things adjust themselves. In considering the opening of a new branch I think that is a matter which you ought to consider.

7753. I think that you and your committee are thinking too much of the banks. I am thinking of the customers?—What we chiefly want to encourage above all things is the banking habit in India.

7754. Well that is the way, by opening as many branches as possible. And we are the only people who are opening?—We quite agree. We look to the Imperial Bank to open as many branches as possible where they are wanted to encourage the banking habit.

7755. Well, there is one more question. In answer to the Chairman,—I may be quite wrong,—but I understood you to say that these crores and crores of rupees of bills that we discount for the bazar, year in year out, are all kinds of accommodation bills?—No, Sir, I was talking about bills which you ask us to give you in order to get more currency.

7756. (*Sir Norcot Warren.*) I beg your pardon. Thank you.

7757. (*Sir Purshotamdas Thakurdas.*) Mr. Campbell, in 1 (*a*) you say the Committee of the Chamber do not feel confident that the present is an ideal time for the attempt at stabilization. You give two reasons for it, (*a*) and (*b*), and under (*b*) you name all the reasons again. One is whether sterling will keep at gold point hereafter or not, and the second is regarding internal conditions in India, especially with reference to a bad monsoon. Your conclusion, however, is—I will read the last few words. "Government should confine their exchange operations to moderating the swing of the exchange pendulum rather than endeavour to bring about equilibrium at a rate which would be unsuitable to Indian conditions." The unsuitable part to Indian conditions is only in connection with poor monsoons, is it not?—(*Mr. Rushforth.*) Not necessarily.

7758. What else have you mentioned?—We have mentioned the external conditions.

7759. Yes. But that is external. I am now referring to internal conditions. If you don't mind I will deal with the external conditions in a minute?

—But our suggestion, Sir, is that the rate might be unsuitable with reference both to external and internal conditions.

7760. I know. I am taking them separately. Your committee give two reasons, one is external and the other is internal. The internal conditions being the easiest to deal with I will take first, and that I find refers to poor monsoons only?—Yes.

7761. I am sure you will agree that that reason will always exist whenever you undertake the question of stabilisation. I mean, you may always feel that next year may be a poor year, the following year may be a bad year too, and with a little ill-luck India may have a third bad year. Therefore, if you attach too much importance to it you will never stabilise. This is as regards the internal reason. Now as regards the external one, that is restricted to the sterling keeping at gold point?—We also mentioned the future of gold prices.

7762. And the future of gold prices. Now every other country which has had dealings with England as the clearing house of the world must have taken this into consideration. South Africa, for instance, or any part of the Empire. Should it not? I will put you then the main question—Why do you attach so much importance to this point for India? Can you quote any other part of the British Empire or of the world which had allowed this to come in the way of stabilisation?—Because it was the cause of failure in the experiment of 1920. We think the Commission are in the best position to judge whether these things are likely to happen again.

7763. At that time India took the plunge first in attempting to set right its policy regarding stabilisation. Unfortunately she failed. Now, we have had several other countries which have tried to attain stabilisation. The best instance one can give is the United Kingdom. Why do your Committee attach so much importance to this fear when no other part of the Empire has attached that importance in any other country?—We said that we do not feel competent to express a definite opinion on these matters. We merely mentioned that because we know that other people who are more competent to express an opinion than we are have expressed doubts.

7764. I have noted that, Mr. Rushforth, In paragraph 6 above. And I think you said, in reply to the Chairman, that when this Commission goes back to England, which is in greater touch with conditions all over the world, they may be able to suggest something. But what surprises me, Mr. Rushforth, is the last paragraph under question 2, where you say that the decision to stabilise should take effect immediately on the publication of the report, assuming that the rate selected for stabilisation is 1s. 6d. Why do you lay down that condition? Whether it is to be 1s. 4d. or 1s. 5d. or 1s. 7d., you are either prepared to accept the recommendation of this Commission or you are not?—(*Mr. Campbell.*) What we have done there is that we have recommended 1s. 6d., and we have assumed, in view of what the Finance Member has said, that, when the issue of the report of the Royal Commission is made, that the rate will be about 1s. 6d., and that being so, if it is about that rate, then we wish it to take effect immediately.

7765. Yes, Mr. Campbell, but your committee has fully taken cognisance of the various uncertainties, going into details in a very minute manner. Then you further say you don't feel fully competent to make up your minds in this connection, but you are prepared to accept the decision of this Commission when they return to England and get more in touch and feel confident that the time is ripe when they may stabilize the rupee. But you put in a caveat and say that the only rate is 1s. 6d. Supposing that the Commission felt that 1s. 7d. would be a better rate, or that 1s. 5d. would be a better rate, may I take it that your Chamber would be equally prepared to accept that?—(*Mr. Rushforth.*) We have replied to that question under question 3. We assume that 1s. 6d. will be the rate at the time of the Report.

7766. In spite of any other conditions with which the Commission may feel impressed in the course of their inquiry in England?—We assume that it will be the rate when the decision as to stabilization of the exchange takes effect.

7767. You say in your statement that it should take effect immediately provided it is 1s. 6d.? If it is anything else than 1s. 6d., should it not take effect?—(*Mr. Campbell.*) I do not say that it should take effect immediately in that case. However, that is a matter that we have not considered. What we do say is, if you confirm the rate as it exists on the issue of your report, then it should come into effect immediately.

7768. Supposing it were 1s. 5d. or 1s. 7d., would you say the same thing then?—We have not considered it from that point of view.

7769. Regarding what you say under 1 (*b*), —"The Committee recall that a point which was considered of great importance to the country as a whole in the last Budget Speech of the Honourable Finance Member, was that fluctuations in exchange had moderated the range of variations in internal prices." Do I understand that you quote the Finance Member there with the approval of your Committee? Do your Committee approve of his operation to this effect?—That is a statement made by the Finance Member, and that is why we mention it.

7770. How then was it a point which was considered of great importance to the country: do I understand that your Committee approve of that statement and that operation of his? I just want to know whether it is being quoted with the approval of your Committee or only by way of information for the Commission?—For the information of the Commission only.

7771. I take it, Mr. Campbell, that that moderation of the range of fluctuations in internal prices was in the direction of lower rupee prices to India as compared with the fluctuations in the world's prices?—You are speaking of the effects of fluctuations in exchange referred to by the Finance Member?

7772. Yes.—I take it that was the general result.

7773. The Finance Member said in his Budget speech that although the gold prices in the world had advanced, by his manipulations of the exchange he had maintained a steady level of prices in India. That is what he said in his speech, and that is what you refer to, that although the world's prices had gone up, in India he kept a steady level of prices?—That was his statement.

7774. Now when the world's prices in at least one important commodity, raw cotton, have gone down this year, would your Chamber recommend that exchange should be manipulated in order that the cotton grower here should get the same range of prices in rupees for his cotton this year as he did last year?—Surely you cannot take particular articles; you must go by the average. Cotton has gone down; jute has gone up. We have to consider average prices, not particular prices.

7775. Jute has gone up in rupee prices owing to a shortage of the crop? That is as extraordinary as anything else. There has been a short crop, and jute went up owing to that. It did not go up with the world's gold prices. I am thinking of the world's gold prices. Cotton is one of the most important articles for instance which India exports, that is why I particularly name cotton. Do I take it that your Chamber would not approve of any such manipulation to support rupee prices internally in case of a drop in gold prices in the world? Do I understand that you prefer stability in internal prices to stability in exchange?—Our idea is that we prefer a stable exchange to stable internal prices.

7776. I would put it this way. Does your Committee approve of the control of rupee prices in India by manipulations in exchange?—It depends on what the level of prices is in the various countries of the world I think.

7777. In no circumstances would your Committee approve of a manipulation of exchange for the purpose of the control of rupee prices?—After it has been fixed, or before it?

7778. Take the present condition?—I think if prices in India were at great variance with prices in other countries, some adjustment in exchange might possibly be necessary.

7779. What amount of variance would justify such a manipulation in exchange; what percentage of variation, 20 per cent. or 15 per cent.?—It is very difficult to say. Index figures are not always reliable.

7780. You say "great variations," and I was wondering?—I mean material variations.

7781. Then regarding 1 (c), you think that the adjustment is complete as far as the rise in exchange from 1s. 4d. to 1s. 6d. is concerned?—Generally I think it is complete; it cannot be complete in every detail.

7782. But on most points it is complete?—I take it you are thinking of cotton wages?

7783. Adjustment generally in India's price levels and wages?—Certain wages I think are adjusted; certain are possibly wrong.

7784. Could you tell us in what particular industries, for instance, wages have been adjusted to the rise in exchange?—I think on this side of India they are all right.

7785. Has there been a fall in wages since the rupee was put up?—I could not tell you.

7786. From some inquiries I have made I learn that wages of labour in jute mills have gone up by 50 per cent. over the 1914 figure, and that wages in cotton mills in Calcutta have similarly advanced too. I have not been able to get at the figure of rise in wages in the coal fields or of the other mining industries. But I understand that in no case has there been any reduction since the rupee appreciated by two pence from 1s. 4d. to 1s. 6d. Can you correct this information of mine or supplement it if it is incomplete, or tell me whether you think that adjustment in wages in these three industries can be said to be complete?—Of course, there is a general tendency for wages to improve in India irrespective of the cost of living. It is difficult to say what adjustment has to be made in regard to the cost of living and in regard to the general improvement which would probably de demanded.

7787. As far as wages are concerned, there would continue to be a maladjustment?—Wages on this side of India at the present time seem to be about right, as far as I know; they seem to be at about the right level.

7788. No adjustment therefore you think is necessary in view of the appreciation of the rupee?—On this side of India, not that I know of.

7789. Either in the coal industry or the mining industry or the jute industry?—Not that I am aware of.

7790. Have you heard of any adjustment in the charges which Government levy such as railway freights, any reduction there owing to the appreciation of the rupee? Have the railway freights been reduced?—There have been reductions in railway freights, I understand.

7791. On the score of the appreciation of the rupee?—I do not think Government have stated their reasons. It was never stated that these reductions were made on account of the rate of exchange.

7792. I was asking you about the last eight to ten months. Your impression is that certain railway freights have been reduced?—They have put down the passenger fares, for instance.

7793. But your impression is that there have been reductions in railway freights here on this side? There have been certain reductions in the rate for coal?—Yes; that was, of course, a demand of long standing—coal always wanted a reduction in freight —coal is always hoping for a reduction in the coal freight.

7794. Now I will refer to question 2, the second paragraph, last two sentences. You say, "in addition it must also be remembered that the rise in the exchange value of the rupee from 1s. 4d. to 1s. 6d. has been largely off-set by the increasing range of tariffs on imported commodities." You have in mind the revenue tariffs or the protection tariffs?—Revenue tariffs for the most part.

7795. But they were levied during the war and soon after?—They have been raised since 1s. 4d. was the prevalent rate.

7796. The revenue tariffs have been raised?—Yes.

7797. The last increase in the revenue tariff on imports, I think, was in 1922?—What we meant to say was that before the war exchange was 1s. 4d. Since that time, since 1914, the revenue tariffs have been very largely increased and compared with pre-war days; the advantage that you now get in exchange is to a great extent off-set by the increase in tariffs.

7798. To that extent the imports are cheaper there; that is all your Committee point out by that? —I do not say they are cheaper. I say the tariff affects the position.

7799. But they are bound to be cheaper to that extent?—It depends on whether the rise in tariff is greater than the rise in exchange.

7800. But to the extent of the difference between 1s. 4d. and 1s. 6d. the imports are cheaper, say, by 12½ per cent.?—But on the top of that you have got to pay very much increased import duty. In some cases it wipes out all the rise in exchange.

7801. The import duty you are paying to-day is the same as you were paying before 1922?—I am comparing with pre-war days.

7802. Now, does your Committee think that this higher exchange is prejudicial to local industries?—It may have individual effects on individual industries. But, as a general thing, we do not think it is prejudicial.

7803. May I read out to you what your Committee said to the Babington Smith Committee in a very elaborate memorandum which they put forward before that Committee? I am reading from Volume III, Appendices of the Report of the Babington Smith Committee of 1920. The memorandum begins at page 63, as the memorandum of the Bengal Chamber of Commerce, and I am reading from page 69. "But the effect of a high exchange must also be considered as regards imports and India's industries. Every effort has lately been made to stimulate India's industrial production; high exchange must, other things being equal, mean lower priced imports, and lower priced imports may well seriously damage, if not cripple, those industries which have been started during the war and have not yet had time to get firmly established. Generally, therefore, it is the opinion of the Chamber that the fixing of exchange at a point independent of the price of silver is liable seriously to affect many of India's exports and industries, if the rate be fixed unduly high, although, owing to abnormal world prices, this effect might not be evident for some time. It is, therefore, the opinion of the Chamber that every effort should be made to stabilise exchange at as low a figure as possible, and they suggest that this can only be achieved either by a debased coinage, definite inconvertibility of the note issue, or, when absolutely necessary, a temporary refusal to encash the note issue." Your Committee were in 1919 definitely for a recommendation to stabilise exchange at as low a figure as possible, and they also unequivocally put on record that a high exchange cripples Indian industries. May I ask if your Committee are of the same opinion to-day as they were in 1919, when they sent this memorandum to the Babington Smith Committee?—(*Mr. Rushforth.*) Was that written at the time when the exchange was somewhere over 2s.?

7804. Yes.—The question whether it is high or low is a relative matter.

7805. I fully realise it. I only wanted to ask whether you think these arguments equally apply to the difference between 1s. 4d. and 1s. 6d. or not when the world conditions have settled down, and we are now progressing towards the normal period?—(*Mr. Campbell.*) For the most part we agree with that. The present Committee have not really gone deeply into the theory of the thing as it concerned conditions in those days.

7806. To the principle that was outlined here by the Committee in 1920, your Committee would still agree?—I think there is nothing wrong in what was said. But the conditions are probably different, and one may not perhaps use exactly those words.

7807. No; to the extent of the difference between the normal exchange and 2s. there is also the difference in the present prices and the abnormality in the world prices in 1919. We are returning more to the normal, and it is an open question whether in normal period a difference of 2d. does not make the same difference as 8d. perhaps did in 1920. As your committee have not said anything about it at all. I do not wish to ask you anything further unless you care to reply.—I do not know what really they were advocating, whether a low exchange instead of 2s.

7808. (*Sir Purushothamdas Thakurdas.*) They advocated as low a rate as possible.

7809. (*Sir Alexander Murray.*) In the very last paragraph of that memorandum, they advocate a rate which was the rate in existence at the time.

7810. (*Sir Purushothamdas Thakurdas.*) I did not observe that as I said.

7811. (*Sir Alexander Murray.*) You will find that the Chamber at the time of writing the statement had in view the rate in existence at the time and advocate that rate in the closing part of that memorandum.

7812. (*Sir Purushothamdas Thakurdas.*) I did not observe it.

7813. (*Chairman.*) Now that our attention has been drawn to it, the Commission can read it.

7814. (*Sir Purushothamdas Thakurdas.*) Under question 3, you say, "they are strongly of opinion that the rate to be selected ought to be the rate current at the time of selection." Do I understand that the rate selected ought to be the rate current at the time of selection, provided adjustments have been complete at that rate then, or irrespective of the adjustments?—(*Mr. Rushforth.*) I think we rather left it to the Commission to decide whether conditions are such at the time as to make stabilisation possible.

7815. Certainly. I was only asking you whether in the opinion of your committee, the rate in existence at the time should be selected provided the adjustments are complete or irrespective of the adjustments. That is all I am asking. I mean, supposing the adjustment of wages to the new rate is not complete; the adjustment in some other articles is not complete; do you say that that rate should be selected, because it is in existence?—If the Commission consider that the fact that those adjustments have not been made is likely to cause serious trouble in India we take it that they would not recommend stabilisation.

7816. And your committee would not recommend either to make the *de facto* rate the permanent rate?—Not if they were of that opinion.

7817. Regarding what you say under 4 (c), I understood you to say in reply to the Chairman that you like the gold to be held in London because it would be wasteful to bring out that gold to India and incur an extra charge on transport. (*Mr. Campbell.*) We are in favour of not shipping just for the sake of shipping, if the money can be saved. We believe in saving money.

7818. But if you can get gold to India direct from the mines you would not prefer that it should be sent to London?—No; I can see no reason.

7819. (*Sir Purshotamdas Thakurdas.*) Under 6 (*a*), Mr. Campbell, you say the committee look forward to the ultimate establishment in India of an automatic currency system. I am afraid I have not been able to follow whether you indicated in your main examination by the Chairman the conditions under which you would like an automatic currency on a gold standard and the period.

7820. (*Chairman.*) The effect of the witness's answer to me, if I may clear up the point, was that the gold currency should be introduced as and when the gold was available by the accumulation of gold in the gold currency reserve. That was the only condition as to time implied in the proposal.

7821. (*Sir Purushothamdas Thakurdas.*) Thank you, Sir, for helping me to that extent. Then I take it that if gold can be available, say, within the next year or two, your committee would like gold currency and automatic gold standard being adopted.—(*Mr. Campbell.*) If sufficient gold is available?

7822. If the required quantity of gold, in order that Government may be able to introduce gold currency smoothly, is available, then your committee have no other objection?—I do not think there is sufficient gold available; but we would welcome a gold standard when it is possible to introduce it without disturbing the country.

7823. My next question was, why not now?—We think it has got to come slowly.

7824. Under question 6 (*a*), second paragraph, you say, "regarding the minting of any purely Indian coin the committee think that provided the Indian mints can produce such coins at a less cost than they can be produced in London, arrangements should be made for them to be minted locally." I think that what you said in reply to the Chairman was that it should not cost more, that the coin if minted in India should not cost more than what it would cost to have it minted in London and brought here. Do you really think that the Indian coin should cost less than the coin minted in London in order that your Committee approve of it being mentioned here?—We understand that a mint will be very much liked in India and if it is not going to be an extravagance, we should be quite willing to see it. If it is going to cost a very small amount and it is worth paying that small amount to let India have it, let her have it by all means. If it is going to be a big cost, a considerable amount, then we say you had better mint the coin where it is cheaper.

7825. If it is going to cost a little more than what it would cost to mint it in London, it might be minted in India?—Yes.

7826. You say "at a less cost than they can be produced in London."—It means that provided it is not an exorbitantly higher cost.

7827. I thought so. That is why I wanted to make it clearer. Regarding 6 (*a*) I understood you to say that you thought that an accumulation of gold would be necessary in order that the rupees may be converted into gold before Government made the rupee restricted legal tender.—Accumulation of gold?

7828. We are told by some that Government would have to accumulate gold here befofe they could declare the rupee restricted legal tender?—(*Mr. Campbell.*) We understand that when you do declare the rupee limited tender that all the rupees which are hoarded will be presented for exchange into gold.

7829. The rupees I take it then may be divided into two classes, the rupees which are in active circulation and the rupees which are in hoards. The rupees in active circulation will continue to be in circulation. The rupees in hoards will be presented for conversion into gold coins?—I imagine the greater part of them will.

7830. I know it is very difficult to get at accurate figures, but what do you think would be a safe amount to allow per head of population for the rupee as a subsidiary coin and as a coin which the people must have because of their small incomes and their small dealings?—I have not made any such calculations.

7831. The rupee in circulation would not be affected and cannot be affected because the people would need it from day to day?—Certainly.

7832. Now if the quantity of rupees which is in circulation and in hoards to-day, or rather supposed to be in hoards and in circulation to-day, works out to Rs. 7 or 8 per head, do you think there is just reason to think that a large quantity of rupees is in hoards?—I have always understood there are hoards of rupees. I have no proof of it.

7833. Nor have the Commission; but several say that rupees are hoarded.—Yes, that is the general opinion I think.

7834. Well I need not trouble you about that because I think it will take us into the region of guesses. Regarding paragraph 8, the last but one, you recommend that Government should set the example of insisting on suppliers drawing bills on them for goods supplied. Who would be accepting these bills?—Government.

7835. When a bill is drawn by a contractor or presented by a contractor and accepted by Government there is no difficulty in any banker or shroff advancing on it?—It is not our practice. You mean bill of exchange?

7836. I am talking of ordinary debit bills. The contractor puts in his bill with the Government department. The Government department takes a month or six weeks, in some cases I have known it to be as long as four months, before they finally pass the bill. Until then the contractor finds his money is locked up and it is he who pays 8, 9, 10 and even a higher rate of interest. I take it your committee recommend that the Government should make such contractors draw on them a bill of exchange?—They do. The contractor would send the invoice and the bill of exchange to Government. Government, if the documents were in order would immediately accept the bill and send it back to the contractor.

7837. Exactly it is the same thing, whether the Government passed the invoice to-day under the present system or whether they passed the invoice immediately the bill of exchange was presented to them.—I do not quite understand what you mean by passing the invoice.

7838. I took up the word " invoice " from what you said. The man sends in his invoice or his bill. The Government take some time before they pass the bill at present?—Before they pay the bill.

7839. Well I mean it is first passed and then the man takes it to the Accountant General who pays the bill. Say I have delivered a certain quantity of piecegoods to the Military Office. I put in my bill. When the authority who is responsible for receipt of it passes my bill, then I present it at the Accountant General's office or the bank as the case may be. —Do you get the bill back?

7840. I get the bill back and I present it to the Imperial Bank or the Accountant General's office as the case may be. The whole delay is in the bill being passed by the Government department. Do you recommend that the Government should force contractors to draw a bill of exchange on them?—I presume Government would be able to accept it.

7841. Forthwith?—Well within two or three days.

7842. Then if they accept it within 2 or 3 days the bill is payable on demand?—No, I would have the bill payable at 60 days or 90 days' date.

7843. That would make the cost to the Government department so much higher. I mean if you are tendering for a contract on the condition that payment is cash on delivery you tender at a lower rate than on payment after two months of delivery. —Certainly, but Government is not at present bound to pay cash on delivery. That is not my experience.

7844. Then you legalise the delay by asking the merchant to draw a two months' sight bill?—Whatever the average delay is; if Government are in the habit of paying within 60 days you will draw a 60 days' date bill. I say 60 days' date and not sight because they might not accept it immediately they get it.

7845. Would you make the further condition that the Government department should pass the invoice and accept the bill when presented, because otherwise till then the bill is useless if it is not encashable. —They must accept the bill within a reasonable time, say 2 or 3 days.

7846. (*Sir Maneckji Dadabhoy.*) I only wish to ask a few questions. I have been forestalled by my friend Sir Purshothamdas about the fixation of rate which you have stated in answer to the Chairman. I understood you to say that whatever rate we may now fix should be provisional, in the opinion of your Chamber. I would like to know in what sense you use the word " provisional." Is it in the sense that it will prevail during the transitional period from the gold exchange standard to the full gold standard, or in the sense that we can revise it when we find again certain conditions not adjusting themselves within six months or a year?—We have not suggested that the Commission should fix any provisional rate.

7847. I want to know provisional in what sense? —I do not think we have suggested a provisional rate.

7848. (*Sir Maneckji Dadabhoy.*) No; you said in answer to the Chairman what the Government of India should do if the Commission were unable to fix a rate.

7849. (*Chairman.*) I think Mr. Campbell accepted the word " provisional " from me. It is not in his memorandum.

7850. (*Sir Maneckji Dadabhoy.*) I do not refer to the memorandum but where they said the rate of 1s. 6d. should be provisionally fixed.—That is with reference to the last paragraph under 1 (*a*) where we have said if the Commission are not convinced that Government can make the selected rate permanently effective it would be preferable to moderate the swing of the pendulum.

7851. So you do not attach any meaning to the word " provisional," that is, that it is to be fixed for the time being?—No; if you are unable to fix the rate, if the Commission is unable to fix a rate which they consider would be permanently effective, then we think, rather than that a rate should be fixed which would possibly not be permanently effective, Government ought to carry on with a provisional rate at the back of their minds. The provisional rate was only in the case of the Commission not recommending stalibisation.

7852. Now 1s. 6d. is only a provisional rate at present?—At the moment it is.

7853. You mean in view of what the Finance Member has said?—Yes, I would call it provisional.

7854. He is keeping it by manipulation. It is merely provisional in that sense. Then Sir Purshotamdas asked you in this connection, I want to make the point a little clearer; under question 3 you say " The Committee do not propose to deal with the question, for as they have already made it clear the rate to be selected ought to be the rate current at the time of selection." So at the time we write our report, say in July next, if the rate is 2 shillings we must go in for 2 shillings. On your recommendation we must take the accident of the period; the mere fact that a particular rate prevails on that occasion, it should be adopted.—No, Sir. We have presumed in our answer to question 2 in view of what the Finance Member has said that at the time of the issue of your report the rate will be in the region of 1s. 6d.; and presuming that the Finance Member is able to do what he said he would endeavour to do we presume the rate will be 1s. 6d. at the time of the issue of the report.

7855. That is you proceed on the assumption made by the Finance Member in his speech that this will be the rate?—Certainly, Sir.

7856. Then a little lower down when talking about the gold reserve you say " No decision should be arrived at as to its ultimate size as it might be permitted to increase until it was large enough to allow the introduction of an effective gold standard." " Large enough,"—those words are rather vague.

What is the idea of your Chamber, what limit do they think is large enough to allow the introduction of an effective gold standard?—We have to know first of all what the number of hoarded rupees is, and I do not think it is possible to answer the question unless one knows how many rupees there are at the present moment in India, in hoards and in currency, the total number.

7857. You have not considered this question?—We are unable to work out any figure. I understand nobody knows the number of rupees at present in India.

7858. We have received some figures.—Yes, calculations have been made.

7859. But you have not made any calculations?—No.

7860. Assuming that 150 crores is the hoard of rupees what will be the amount required sufficient for the introduction of the gold standard?—The difference between the bullion value of those 150 and the face value of those 150 crores of rupees.

7861. That is your idea?—Roughly without going into any great detail.

7862. Speaking about the Imperial Bank lower down you state "The Imperial Bank is at present a trading bank and the private shareholders have a principal voice in directing its affairs and policy. Under the new constitution the shareholders should become consultative and advisory with a limited interest in the profits." I do not understand this, that the shareholders should become consultative and advisory with a limited interest in the profits. Will you please develop this and let us know what exactly you mean by this?—(*Mr. Rushforth.*) That I think is taken from the memorandum on the State Bank submitted to the Chamberlain Commission. It seems to be the scheme of the principal Central Banks.

7863. But in what way would you limit the interest in the profits of the shareholders, I would like to know something about it?—It seems to me that is a matter for banking experts.

7864. And would you make the shareholders consultative and advisory by having a board selected by the shareholders. "Consultative and advisory," what is meant by that? Is not the present directorate which represents the shareholders consultative and advisory; does it not meet this circumstance?—We understand that they have the principal voice in directing the affairs of the Bank.

7865. Who?—The shareholders.

7866. But haven't they got at present a voice?—We understand that they have and the idea of a Central Bank should be that the general interest, the interest of the community at large, would be the first thing to be considered.

7867. But you know that the Government nominates at present 6 Governors, 2 Managing Governors and 4 other Governors. Isn't that a sufficient safeguard for the protection of the interests of the shareholders and the general public?—(*Mr. Campbell.*) We have not gone into the new constitution of the bank; we only want to point out that the matter should be considered very carefully.

7868. One more question: under question 2 you say "The decision to stabilise should take effect immediately on the publication of the Report of the Royal Commission." If we come to the conclusion that stabilisation should be at 1s. 6d. at once, do you think it would cause great economic disturbance?—I think you are bound to get a certain amount of disturbance because there will be some uncertainty; you mean if the report is issued and the Government take no notice of it?

7869. What would be economic disturbance?—I do not know that there will be any, but I think it will be much more satisfactory to know what is being done.

7870. (*Chairman.*) Are not those referred to in your initial three paragraphs, where you analyse the undesirability of the present state of affairs?—I think what was meant by that question was that if the Commission was to say that the rupee should be stabilised at 1s. 6d. would it matter if no action was taken on that for some time? My reply to that was that it would be better that action should be taken at once.

7871. (*Sir Maneckji Dadabhoy.*) One more question and I have done: In the opinion of your Chamber has the exchange at 1s. 6d. remained sufficiently long in existence, that is, the period of 16 months sufficient, to justify us in coming to a conclusion that that would be the correct ratio to adopt?—We have pointed out in our memorandum that during this period we have not been through any bad monsoons, and there are other factors which we have mentioned in the first page which might upset it, but we leave the decision to the Commission.

7872. (*Chairman.*) I understand, Mr. Campbell, that you will be so kind as to assist us again this afternoon?—Yes, certainly.

7873. (*Chairman.*) I think we can undertake not to keep you for more than an hour.

(Adjourned for lunch.)

7874. (*Sir Reginald Mant.*) Mr. Campbell, to revert for a moment to a point which you discussed with Sir Maneckji Dadabhoy and Sir Purshotamdas Thakurdas, your suggestion that if the 1s. 6d. rate were adopted it should be put into operation at once, may I take it that the position of your Chamber is that, a 1s. 6d. rate being in force at present and prices having more or less adjusted themselves to it, it could be made permanent without any disturbance, whereas, if it was decided to adopt another rate, there might be disturbance, there would be certain adjustments to be made in prices and wages, and it might be necessary to wait for a certain time before making it effective. May I take it that that is the position of your Chamber?—We have not really considered the point of waiting. We advocate 1s. 6d. and we believe that 1s. 6d. will be the rate if you do stabilise, and in that case we recommend it to be put into force at once. If it were another rate, then other methods might have to be adopted.

7875. Mr. Rushforth, in reply to the Chairman you gave an interesting account of conditions in India which make it difficult for a large contraction of the currency to be carried out at once. You said I think that Calcutta and Bombay acted as buffers, shock-absorbers, and that they could not withstand the shock of the fall of prices in 1920. I would just like to follow out that line of thought a little. In the first place, supposing there were a sharp rise in gold prices, would that cause an equal strain on the shock-absorbers? Or is it only in the case of a fall in prices that they break down?—I think the difficulty would be more noticeable in the case of falling prices.

7876. Now in 1920 the fall was very abnormal and exceptional, was it not?—Yes.

7877. Such as humanly speaking may not be expected to recur except in the case of such general world disturbance as was brought about by the war?—There was something on a very much smaller scale but it has an interesting similiarity I think about last May, when a weakness of exchange coincided with a demand for currency, and at a time like that I think it would have been very difficult indeed to contract currency without causing a crisis.

7878. Well, supposing there was another sharp fall in prices and the strain put upon the shock-absorbers was too great for them to withstand, what would happen? Would you let exchange go to ease the shock, would you let exchange fall?—I think it would depend entirely on the conditions at the time. It is very difficult to say.

7879. You say at the end of your paragraph 4 (*c*) in connection with the use of the gold standard reserve, that when it was drawn upon for exchange purposes a corresponding contraction of the currency in India should be made.—Yes.

7880. You would not repeat the procedure of 1920 when a certain amount of reverse councils was sold without contracting currency?—No.

7881. Then the only alternative before you would be to cause greater stringency in the money market or to let exchange fall?—We were hoping that if it was decided to stabilise the rupee there would be no possibility of circumstances of that nature which would make it necessary for such a contraction of currency over any period as to cause serious financial difficulties.

7882. It comes to this, does it not, that under present conditions in India you could not maintain a stable rupee against such a phenomenal fall in prices as occurred in 1920?—I don't think it would be possible.

7883. I was wondering whether some idea of that kind was at the bottom of the suggestion of the Chamber that we should not stabilise the rupee unless we were satisfied that sterling would remain on a par with gold. Because against that view it might be argued that, if you stabilise either in terms of sterling or in terms of gold and the two parted company, at any rate you would have one exchange stable. You would be stable with whichever standard you adopted. Whereas if you did not stabilise at all, you would have fluctuations both with sterling and with gold. And I was wondering whether your idea was that it would be a large change in price levels that might divorce sterling from gold and that that was the reason why you would not stabilise unless you were satisfied that the two would remain at the same level.—That was one of the reasons at the back of our minds.

7884. And I suppose you have no means of judging whether that is likely to happen or not?—We have none.

7885. Just one other point. In paragraph 6 (*a*) of the memorandum, you refer to a period of transition during which the public were being educated to use gold-backed notes. What exactly was the idea there?—(*Mr. Campbell.*) We hope eventually that the currency of the country will be in the shape of gold-backed notes and not in the shape of gold coins, but we are rather inclined to think that they won't use gold-backed notes until they realise that the coin has been there and that they could get it so easily so that they would have such perfect confidence in the notes that they would use the notes and not the coin; and we thought it would take a period to get them educated up to that.

7886. But do you contemplate the use of these notes during the period of transition—the gold-backed notes?—We would use the notes as much as possible as long as they have complete confidence in them. If you start straight off with gold-backed notes and they will accept them and believe that they can get gold whenever they want it, there is no objection to starting off straight away with them. But we think it will take time.

7887. And how would you issue them? Would you only issue them in exchange for gold? How would the public get these gold-backed notes?—I think what we meant was that when you eventually get on to a gold currency, the notes would be gold-backed.

7888. Oh yes, that would be comprehensible.—I don't mean that there should be two sorts of notes in the country—unbacked gold notes and backed gold notes. We simply mean that in future the best form of currency for the country would be notes backed by gold and not the actual gold in circulation.

7889. Yes, that is clear. It is only because you suggested the use of these notes during the transition period that I put the question.—We didn't mean the notes would be used during the transition period. We meant the transition period would be during which the public were being satisfied that there was gold there and that after the transition period they would accept the notes in the full confidence that there was gold at the back of them.

7890. You would not issue the notes until you got a gold backing?—I agree.

7891. (*Sir Alexander Murray.*) Mr. Campbell, may I take it that in writing what has been written under paragraph 5 (*a*) regarding the constitution of the Imperial Bank of India, and the future of that Bank you were keeping in view the fact that as a Chamber you were representing various interests, not merely the interests of merchants and manufacturers, but also the interests of Exchange Banks and indigenous Banks, and therefore that you must have found particular difficulty in putting forward the suggestions that you have put forward?—That is quite correct. As I said, we have Exchange Banks and indigenous Banks who are members, and we had views and opinions expressed by a large number of our members which include the Banks and merchants and others and the views put forward were really meant to represent as far as possible the general tendency of the views that were expressed.

7892. I suggest what you mean to convey is that in view of the feeling that you find existing now regarding the Imperial Bank, you think it advisable in the event of the reconstitution which would be necessary if they were to take over functions in addition to those now performed by them that a full inquiry ought to be made into all these different circumstances as suggested by you?—We think it would require a very full inquiry, and it would take some time.

7893. I suppose part of the feeling that appears to be general in the public mind regarding the Imperial Bank is due to, shall I say, some want of knowledge on the part of the public as to the actual relationship that exists between the Imperial Bank and the Government at the present time?—That may be so; I cannot say definitely.

7894. Do you feel that it is partly due to the fact that the Imperial Bank is a new institution and there is always a tendency on the part of existing institutions to more or less resent the introduction of a new institution? I have in mind a remark that I see in a book on American Banking written by a man who was Secretary of the Federal Reserve Board and was Director of Research for that Board. As you know, the Federal Reserve Board was created just before the war, and this man writing here says:—"Before the war the Federal Reserve Banks had been resorted to very little, and there was a kind of understanding among many of the Banks that, if possible, they would avoid dealing with Federal Reserve institutions at least so far as practicable." I mean that is a feeling that often exists on the part of older-established concerns against newly created bodies interposed between them and the public, and it may be said that, as I said before, a good deal of the feeling that exists now regarding the Imperial Bank is largely due to such a feeling as is indicated in the extract I have read from "American Banking."—There is no reason to believe from what has been said to me that such feeling exists. At the same time from my own knowledge, if anybody appears to get any advantage from Government, they are always people against whom complaints are made.

7895. One of the objections we have heard in evidence is that, for instance, the Imperial Bank gets the use of the Government balances free, and that that gives them a definite pull as against the other Banks. But, is it not largely overlooked in that connection that when the Imperial Bank is carrying a large Government balance, it is in the off season as a rule when bank rates are low and money more or less unloanable except at very small rates, even 1 to 2 per cent. On the other hand during the busy season very often the Government balances with the Imperial Bank are very low. Now at the present moment we are entering on the busy season and the Government balances with the Bank are not more than about 4 crores whereas in the off season they were probably up to something like 30 crores. Now that want of knowledge in connection with these things probably influences people to have the feeling against the Imperial Bank which appears to exist.—I think our members know that the Imperial Bank does a certain amount of work for Government

without charge and that the Imperial Bank gains a certain amount from having the Government balances, but I do not think the majority of them have very much idea which way it works—whether there is an unreasonable profit in having the Government balances and so forth.

7896. However, whatever is done, a full inquiry ought to be made into all these circumstances before a new constitution is arrived at?—Certainly.

7897. (*Sir Alexander Murray.*) There is one other thing. Sir Purshotamdas Thakurdas referred to the memorandum by the Bengal Chamber of Commerce presented to the Babington-Smith Committee in June 1919, when he read an extract regarding the effects of a high exchange on India's Industrial production. Now as a matter of fact as a member of the Committee of the Chamber that drew up that statement the facts are fresh even now in my memory, and on looking it up I find that the extract read by Sir Purshotamdas Thakurdas is taken from one of the headings of the Chamber's memorandum called 'Possible modifications of the present system,' and it was dealing with one particular item, namely the raising of the exchange rate to a point independent of silver. The extract, therefore, that Sir Purshotamdas Thakurdas read to you was an extract based upon a discussion arising out of the assumption that two shillings would be a rate which would make the rupee independent of the price of silver.

7898. (*Chairman.*) Are you putting that to the witness, Sir Alexander?

7899. (*Sir Alexander Murray.*) I was giving him the evidence which Sir Purshotamdas Thakurdas produced in order that he may draw whatever conclusion he may.

7900. (*Chairman.*) If it is a question of what conclusions should be drawn from the Report perhaps it might be more to our advantage to discuss them amongst ourselves. Are you putting that to the witness?

7901. (*Sir Alexander Murray.*) I wish to put it to the witness, Sir. The particular statement to which Sir Purshotamdas Thakurdas referred appears as I was saying under a heading, "raising of the exchange rate to a point independent of silver." For a year exchange had remained at 1s. 6d. and had been put up just before the Memorandum was written to 1s. 8d. and the point at issue was that assuming 2 shillings would be the rate which would make the rupee independent of the price of silver, the Chamber were discussing what the effect would be if the rate was put up to such a high point as two shillings, and it was in that connection that they said "Generally therefore it is the opinion of the Chamber that the fixing of exchange at a point independent of the price of silver is liable seriously to affect many of India's exports and industries if the rate be fixed unduly high," and they go on further in the closing paragraph to say, "The requirements of trade demands stability at as low an exchange rate as is in present circumstances possible." They finish up by saying:—"Without further knowledge of the silver markets and production, the Chamber are not prepared to name the rate of exchange at which the securing of stability is possible, but they hope that it will not be found necessary to fix a rate higher than that ruling to-day." Now in view of what I have said, is that very inconsistent with what you yourself say under question 3 in your statement where you say, "they are therefore strongly of the opinion that the rate to be selected ought to be the rate current at the time of selection"?—I do not think there is anything inconsistent between our two statements.

7902. (*Chairman.*) There is just one question which I wanted to ask, if it is not trespassing too much upon your patience. Under question 5 (*a*) in your memorandum your Chamber says: "The Committee favours the idea that the note issue and the whole of the monetary reserves should be under the control of a central banking authority." Does the whole of the monetary reserves there include the gold standard reserve?—Our idea was that it would include everything.

7903. Supposing that the control of the gold standard reserve be transferred to the central banking authority, has your Chamber considered the policy of the unification of the gold standard and the paper currency reserves?—You mean the amalgamation of the two?

7904. Yes?—We considered the question from the point of view of trying to divide the two reserves more completely than they are divided at present to fulfil the specific reasons for which they were created and we found that we could not see how it could be done. But going further than that, we also saw no reason why they should not be amalgamated.

7905. We remind ourselves that your scheme for providing gold for the gold currency in future is that this should be obtained on the credit of the interest on the gold standard reserve?—Yes.

7906. Supposing that there is an amalgamation of the reserve in the hands of a Central Bank, what arrangements would you suggest by which the interest on the gold standard reserve should still become available as a credit against which gold is obtained to be put into currency. To make one explanation of my question, I should have asked in the first place, under those circumstances the provision of gold for currency would become an obligation of the Central Bank, would it not?—Yes.

7907. Would you then propose that this obligation to provide gold for the currency should be undertaken by the Imperial Bank in consideration of the circumstance that the assets of the gold currency reserve are handed over to them?—I could not reply to that question, Sir, without having worked it out in more detail.

7908. Perhaps I might put it in the simplest and most generalized form of all by saying that I understand it would be a feature of your scheme that, whoever held the assets of the gold standard reserve, should undertake the obligation, in consideration of holding those assets, of devoting the interest on the reserve to the provision of gold for currency. Shall I repeat that, because it is a novel aspect? Whoever held the gold standard reserve, whether it were the Government or the Central Bank, should undertake, in consideration of their holding those assets of the gold standard reserve, the obligation of making use of the interest on the gold standard reserve to provide gold to be utilized for the establishment of a gold currency. I think that is your meaning, but I just want to be clear that it is your meaning even after the transfer to the Central Bank?—(*Mr. Rushforth.*) I think that our idea is that the first duty of the gold standard reserve is to maintain exchange, and I do not think that we should be justified in saying that the interest on the gold standard reserve should be applied for the purposes of a gold currency if it thus reduced the reserve to a level inadequate for the support of exchange.

7909. That is certainly a most important reservation, that the utilization of the gold standard reserve, from the aspect of its interest increments for the purpose of introducing a gold currency, is only to be a secondary purpose to its fundamental purpose of being maintained at an adequate figure for the support of exchange?—I think that is our idea.

7910. That we must clear out of the way in the first place. Assuming that the gold standard reserve is maintained at an adequate figure, I understand it is then your opinion that the interest on the reserve should be devoted to the establishment of a gold currency. I think I can put this question quite simply by asking you whether, if the assets of the gold standard reserve are transferred to the bank, it will then, in your opinion, become an obligation of the bank to make use of the surplus interest of the gold standard reserve to provide gold for the currency. If it did not, and if the transfer of the assets were to be made, then your scheme would break down, would it not? Therefore, it appears to me it is necessary to conclude that if the transfer of the assets of the gold standard reserve to the Central Bank were made, it will then

become an obligation of the Central Bank, in consideration of holding those assets, to use the surplus of the reserve accruing in the form of interest to provide gold for currency purposes?—I cannot quite see that the duty of providing the gold for the currency will rest with the bank.

7911. Must not the obligation to provide the gold follow and attend the possession of the assets of the reserve? To put it very crudely, it is out of the increment of the reserve that the gold should be provided?—I think we have said under 5 (*b*) "it is for the authorities controlling the reserve to determine the proportion to be held in securities and the proportion to be held in coin and bullion." I think we might amplify that, and say "proportion to be held in gold coin, silver coin, gold or silver bullion."

7912. Then the point is this, is it not, that if you desire to adopt this policy as regards the gold standard reserve and you are going to part with the assets of the gold standard reserve, you must impose some special liability to carry out your policy on whoever carries out that duty?—Yes, that is true.

7913. It does follow, I think, as a consequence from any proposal to transfer the assets of the gold standard reserve to any currency authority, whether it is a Central Bank or a joint board or anybody else?—Yes.

7914. That is as far as I can carry it in our questions to-day, because it is undoubtedly a point which has not been definitely considered by your Chamber?—Yes, that is so.

7915. (*Mr. Preston.*) Might I ask one question relevant to the last remark? Mr. Rushforth, under questions 4 (*a*) and (*b*) you say, "Whereas by the sale of councils without limit." Without limit? Is it the intention of the Chamber to suggest that Government should sell councils only up to the extent of actual requirements or without limit?—We say at the end that it will be unwise to lay down any hard and fast rule on the subject.

7916. What should we say? Would you rather make that general reply than a definite reply?—Our idea is, I think, that as far as the sterling remittances are concerned, we think Government ought to make their purchases intelligently between the gold points primarily with a view to their own advantage and at the same time considering the requirements of the markets.

7917. What I have in view is this: Certain evidence has been tendered to us in which it is stated definitely that Government should not sell in excess of their requirements. Then the position becomes this: that if Government do not sell in excess of their requirements, the seasonal requirements would be only obtainable by shipping out gold from London. So that gold would be coming out here and accumulating on this side, in addition to the gold the Chairman has been speaking about, augmenting the fund to bring about the gold standard ultimately in view. Would you think therefore that it would be the intention of the Chamber to say that from this point of view Government should not sell councils in excess of their yearly requirements? I do not think we should say that. I should think it is a question of degree. At the present moment, they have sold a certain amount in excess of their requirements, but not to the extent to court criticism.

7918. May I ask just one more question, that is also suggested by a previous question the Chairman put to you and that is in connection with the Committee's idea "that the note issue and the whole of the monetary reserves should be under the control of a central banking authority"? Is it the intention of the Chamber that when the note issue is handed over to the Central Bank ultimately, the notes should still remain the notes of the Government of India or become central bank notes?—Our feeling on the subject was that it should become the central bank note, although in the memorandum included in the Chamberlain Commission's Report it was suggested that although the bank took over the note issue, the notes should still remain Government notes.

7919. (*Mr. Campbell.*) Just one point that Mr. Rushforth has raised regarding 6 (*b*), second line; after "issuing gold," there should be added "for export." By issuing gold we mean to say issuing gold for export.

7920. (*Chairman.*) That might be corrected in the proof when it is sent to you.

The Chairman thanked the witnesses on behalf of the Commission and they withdrew.

Mr. B. CHAKRAVARTI, called and examined.

7921. (*Chairman.*) You are a barrister-at-law?—I have been practising for the last 40 years.

7922. And a member of the Legislative Council of the Presidency?—I am.

7923. I believe you are also the managing director of the Bengal National Bank?—I am not the managing director, I am the chairman of the Bank.

7924. And you have also experience of the cotton industry?—Yes because I am the chairman of a cotton mill; and I am also a landlord.

7925. You have the advantage of a very wide and varied experience of business conditions, and you have been good enough to let us have a brief memorandum* in which you set out the principal headings of your opinions upon the problems submitted to us for reference. I will, if I may, ask you a few questions to give you an opportunity of expanding your opinions upon the subject. What, in the first place, are your reasons for preferring a gold standard, with gold in circulation, to a scientific gold exchange standard?—I am not speaking as an expert. I am only speaking as an ordinary man who has had experience of life and business. The reason why I say, if I may divide it into two parts, in the first place that I should like to have a gold standard is that for some time past for the international buying and selling we have had the gold standard whereas for internal trade we have depended upon our metallic standard which is silver. We have to deal very largely with a gold currency country, that is, England mostly, and to my mind it only leads to confusion to have a gold standard for one class of business and a silver standard for another. That is my first reason. As regards the gold currency, I am speaking on behalf of the general population, that is the agricultural population. The agricultural population is about 80 per cent. in this part of the country, I do not know of the other parts; and Sir I find that the peasant can deal with concrete things. If it is a gold standard he would like to have a gold coin representing that standard. As to any other scientific method it would be very difficult for me to induce him. I have reasoned with him but he can only deal with things that are concrete. He says if gold is to be the standard let the coin also be gold.

7926. What will he do with the gold coin when he has got it?—He will deal with it in exactly the same way if he has the chance of getting a large quantity but if there are only small transactions in which he is interested there will be a minimum or maximum of silver for purposes of small transactions.

7927. In the past when he has got the gold coin he has usually put it in his stocking, has he not?—That is not my experience.

7928. Will you tell us your experience as regards the habits of the people in relation to gold?—Now if you have two, that is, gold and silver, then he has a tendency to retain the gold and he uses the silver; but if he has only one, that is, gold, and also if he can deal freely with the gold, whenever he wants gold he gets it, then there is no inducement for him to keep the gold in hoard. There is a tendency, I do not know whether it is peculiar to my countrywomen—that is, the ladies want a few trinkets and

* Appendix No. 38.

ornaments; probably more so in India than elsewhere; but in more recent times I have noticed there is a marked change in their inclinations. For instance, there is my wife; she would like to have a large quantity of ornaments; but with regard to my daughters and daughters-in-law, they are not so fond of ornaments. On the other hand, they would like to spend the money on bioscopes and theatres and in going about here and there. And if I may point out one more thing. You see what kind of ornament satisfied my wife, who is an old woman, won't satisfy the modern generation; they are out of date; fashions have changed and therefore the gold instead of being hoarded will come on the market and be converted into sovereigns provided you open the mints.

7929. Does the bank with which you are associated do business in many branches?—No it is only a small bank.

7930. Is it a deposit bank?—Yes.

7931. Do you take deposits from the ordinary public?—Yes.

7932. Forgive me for asking these questions on a personal business?—Not at all. I shall be very glad to answer any questions you put to me because my only object is to assist the Commission.

7933. From your experience of deposit banking, do you find that the habit of trusting their savings to a bank for deposit is on the increase or decrease among the ordinary public?—Remarkably on the increase and what I find with regard to this small bank of which I am the Chairman is that we opened savings bank accounts. For a few years we did not attract many people; that is, those who wanted to save small amounts and put those amounts in the bank. During the last 3 or 4 years I find that daily the amount is increasing and there is very little withdrawal.

7934. Is the increase in big accounts or in small accounts?—No, in small, very small accounts.

7935. The number of small accounts is increasing? —Yes and in point of fact we are finding a little difficulty because it is a small amount of money that is brought in by the individual and therefore accounting becomes rather difficult because more people have to be employed.

7936. And expensive?—Yes.

7937. Has there been any special time to which you can date back this increase in the banking habit, or has it been steadily growing?—Speaking generally it has been steadily going on, but I rather think that during recent years there has been a certain amount of movement even with regard to the peasants, with regard to the cultivators, on account of co-operative banks and loan societies in the mofussil, and the general tendency is to resort more to banking than saving up money and hoarding.

7938. How far down does this growth in the banking habit go? Does it go right down to the poorest class of cultivator?—Yes, with regard to co-operative societies, for example, I am speaking of my own district, the district of Jessore, there is a co-operative society there. It reaches the peasant, the actual cultivator of the soil. Then at Jessore there are about three or four banking institutions. I would not call them strictly banking institutions; they are more like loan societies. That is attracting money both from the well-to-do people as well as from the peasants.

7939. What is your experience as regards the preference of the people. Do you find a growing or a decreasing acceptibility of notes in comparison with silver rupees?—I can speak for the last 25 years. I receive in the course of a year about Rs. 50,000 from the country. About 25 years ago I did not get anything but silver and some portion of the silver consisted of bad rupees; but this year for example the whole of the money that I have received is nearly half in notes and in some cases hundred rupee notes.

7940. And you see it, I suppose, on the other side of the book when people come to the bank for cash. What is your experience of the popular demand for silver rupees in relation to notes?—Except for a very small quantity of silver they would sooner have ten-rupee notes than a lot of silver to carry. They are coming to appreciate the usefulness of paper money.

7941. In this connection, what is your opinion on the policy of the small note of less than Rs. 5?—With regard to the experience that I have had about the rupee note, that was not very favourable but I should think that Rs. 5 notes or rather the equivalent of that in gold would be quite popular.

7942. The five rupee note?—The five rupee note or the equivalent of that in gold.

7943. But they have a five rupee note now?—Yes; it is quite popular.

7944. The question is whether it is a good thing or not to have notes of less than five rupees in circulation?—I find that as regards the one-rupee notes the people had a certain amount of reluctance because you have to pile up a number of notes when paying say 25 or 50 rupees; and then a lot of these one-rupee notes got very dirty soon in passing from hand to hand; that was a complaint that I received on several occasions.

7945. Did you find that, on the whole, people were reluctant to take them?—No. I never found any reluctance to take either the rupee note or the silver rupees as long as it was in circulation.

7946. Did you ever hear that people in villages when they wanted to change one-rupee notes for small change had to pay any special discount to the money-changers?—No; I never heard that.

7947. You want to see gold put into circulation?—Yes.

7948. What do you think would be the demand for gold coins in actual circulation?—At present I do not exactly know the actual quantity of gold in the form of sovereigns.

7949. Outstanding?—I should think that there is really a considerable quantity of gold in the form of sovereigns still in the hands of the people. That I think will circulate and will come into the market.

7950. That gold is at present held up as a hoard or as a store of values, I suppose?—If you will kindly pardon my not using the expression 'hoard.'

7951. That is why I provided you with an alternative: I knew the unpopularity of the word?—I think it is kept more in the nature of a contingent reserve against rainy days.

7952. If it is kept for that purpose now, I suppose that the people will still want to keep it for that purpose, will they not, whatever happens, unless there comes a bad year when they have to bring it out?—But once there is a gold standard and gold currency there would not be the same tendency to retain the gold coin. The gold sovereign is retained in the hands of the people because it is far easier and less bulky for the spare money to be retained in that form rather than in rupees. It is really competition between rupees and gold coins.

7953. If they do not keep their gold but bring it out into circulation, in what form will they hold their store of value?—I do not think they will keep any particular sum of money in that form; but it may be in the form of notes or gold sovereigns or gold notes; some portion will be in ornaments.

7954. But that will still be gold?—Yes; but they will have this advantage; supposing they want any quantity of gold as coins; they will send these ornaments to be melted in the mint and get sovereigns. It is more on account of possessing something which is not ordinary that this gold is now held; it is in human nature. Because nobody is using gold every day therefore it is precious; probably it is a sentimental feeling.

7955. What you have told us is very interesting and convincing, that people in India require to hold some store of value against a bad year because the whole thing depends so much upon the good or bad

year, and at present they hold it in gold. If and when we get a gold currency, what will they hold their store of value in? Not gold, you say, because gold will become common and ordinary. What will they hold it in?—With more banking facilities they will put their money in the bank; instead of keeping it in the house they will keep it in the bank.

7956. You think it will in course of time lead to a cessation of the habit of keeping metal in the stocking?—Yes, and more so because in the mofussil life is still open to a certain amount of danger; there are thieves and dacoits and so on and these people are going to the mofussil banks more on account of this danger.

7957. This is a very old habit of the Indian people, is it not, of keeping their store of value in metal?—I am afraid it was an old habit and I tell you the reason; it is an historical reason. Before the British Government established itself we had so much of internal dissensions, war here, war there and so on; independent freebooters down to the time of Ali Verdi Khan came and pillaged and the only way Ali Verdi Khan could turn them away was to give a fourth; that was the origin of the Chauth; in the same way life in those days probably in all parts of the world was so insecure, specially with regard to valuables (I am not speaking of my country only but of all parts of the world), that people wanted to secrete their valuables and money and hoard it. But in these modern days of banking and orderly government and with the settled habits of the people, there is no inducement to keep it in hoard.

7958. Taking a safer instance, it is less than two hundred years since Nadir Shah was in Delhi; but the habits are ingrained in the Indian people, and I imagine you do not think the circulation of gold will cure them at once; it must be a process of education?—It must be a gradual process; but at one time rupees were hoarded; that objection would equally apply to any metallic currency.

7959. Can you give the Commission any information from your experience as to the nature (I do not mean little holdings of silver just as stores of value) of larger holdings of rupees which may be held here and there? In this connection I think we must use the word "hoards"?—I do not think there is much silver accumulated in India; the highest amount even in the case of a prosperous peasant will probably be not as much as 100 rupees.

7960. I am not going to ask you, of course, now to name any particular instances, but have you yourself in the course of your experience come across any large or substantial hoards of rupees?—I remember one instance; that is to say, I did not see it myself, but it was reported to me in connection with the execution of a decree for rent that we obtained. The execution was against the man's movables and naturally his cattle and implements were attached by the execution officer. Upon that it was reported to me that the man opened a hole in the floor of his hut and brought out 50 or 60 rupees. That is the only instance which has recently come to my knowledge with regard to actual hoarding.

7961. That, of course, is a small amount?—Yes.

7962. You have not within your experience come across any instances of large hoards amounting to thousands of rupees?—No, never.

7963. On this question of the currency habits of the people, you have told us that the educative force of the gold currency must of course take time to achieve its effect?—Yes.

7964. At first if gold were to become freely available for currency, what, in your opinion, would be the effect upon the note circulation?—I do not think the note circulation will be affected at all. If anything, if there are gold notes they will be taken in preference to sovereigns.

7965. You would not fear that this impulse towards gold, or what is described as this affection for gold, might not have the effect that people would say: "Let us always have the best, now that we can get it, for every purpose. Let us have gold for circulation in preference to notes"?—I should not think so; they would circulate sovereigns if it is convenient to circulate sovereigns; they would circulate notes if it is more convenient to circulate notes. There will be no special liking for metallic circulation in preference to paper money. I notice that with regard to rupees.

7966. If I remember aright, by far the most numerous notes individually are the ten-rupee and the one-hundred rupee notes in circulation?—At the present moment so far as I know it is the ten-rupee notes which form the bulk of currency notes.

7967. By far the most popular note is the Rs. 10 note and the Rs. 100 note?—Yes, and if I may interrupt you, Sir, for larger payments, for example if a man is buying a house or buying an estate of considerable value then Rs. 1,000 notes and 10,000 notes.

7968. For those larger payments they are not likely to substitute gold because of the inconvenience, but for the demands for which Rs. 10 and Rs. 100 notes are used, is that not just where, in your knowledge, you might expect gold, at first at any rate, to be drawn off into circulation at the expense of the note issue?—I don't apprehend it.

7969. You do not attach any importance to that danger?—No.

7970. Now I want to ask you a more theoretical question. Have you been able to make any estimate of the amount of gold which you would require from first to last to carry out your suggestions as to the introduction of a gold currency?—If that figure is correct that 300 crores of rupees are at present in circulation amongst a vast population, now all that you would have to provide is for that quantity in gold and out of that quantity I won't be quite sure whether 19 or 20 crores something like that you will get out of the existing gold currency, that is in sovereigns. Then if the mints are open, instead of a desire to get gold and store it up, there will be a tendency rather for the purpose of converting the gold into gold sovereigns.

7971. I want, in the next place, to ask you a question or two about the note issue. Are you or are you not in favour of transferring the control of the note issue to a Central Bank?—By the central bank, do you mean, Sir, the Imperial Bank.

7972. I purposely did not say the Imperial Bank; I said to a central bank, a central bank of issue?—A Central Bank under the control of the Government?

7973. That must be part of your answer. Would your answer be that you would be in favour of transfer to a suitable Central Bank?—At the present moment I entertain some doubts as to the practicability of such a Central Bank. No doubt, the Imperial Bank has this amount of disadvantage that it is a bank mainly controlled by its shareholders and naturally with regard to the control of the administration it must be determined by the shareholders. But I have been in touch with the Imperial Bank or rather its predecessor, the Bengal Bank, from the year 1890 and I have been all along in touch with them. Therefore, you may have the idea of a Central Bank independent of the Imperial Bank later on, but at present I think we will get on very well with the Imperial Bank.

7974. Would you be prepared to transfer the control of the note issue to the Imperial Bank in its present form?—With certain safeguards.

7975. What would those safeguards be?—That is to say with regard to the issue of notes the Imperial Bank—I don't know whether it will or it won't—but it ought to submit to more representative administration for the purposes only of the note issue, not with regard to other work.

7976. I understand you are of opinion that, with these safeguards as to further control in regard to the note issue policy, the Imperial Bank, in your opinion, both in the manner in which it is worked

and the way in which it is at present constituted, inspires confidence sufficient to make you prepared to transfer the note issue to the Imperial Bank?—Undoubtedly. If there is no other central bank, which is not now possible.

7977. One final question, Mr. Chakravarti, to which I was leading. Supposing such a transfer be made, what in your opinion will be the effect upon the acceptability of the note issue of its becoming a note issue of the Imperial Bank and not of the Government?—I don't think they will have any preference either one way or the other. They will take it exactly in the same way.

7978. As long as it looks the same?—I am still again talking about the peasant, the actual cultivator who forms 80 per cent. of the population. With regard to his concrete mind, he cannot distinguish between the Government, the Imperial Bank and other institutions. In point of fact, every agency which is practically in the hands of the Government or controlled by the Government, they take it as if it were the same as the Government, whether directly or indirectly.

7979. (*Chairman.*) I am obliged to you, Mr. Chakravarti, for your evidence. There are one or two Members of the Commission who may like to ask some supplementary questions, and I will postpone any further questions of my own, if there be any, until a little later on.

7980. (*Sir Alexander Murray.*) Mr. Chakravarti, you have had a good deal of experience as a business man and as a banker and also in charge of Indian Mills in Bengal. We have had it put to us here some time in evidence that the Imperial Bank has not given all the facilities to the public that it might have given in the matter of accommodation. Now what has been your own experience or the experience within your knowledge?—My experience has been very much in favour of the Imperial Bank because two years ago—I speak frankly, Sir, when I was in difficulty with regard to this small bank of mine because there was a run, the Imperial Bank saved the institution ungrudgingly and so much so that the money was paid up by the Imperial Bank before the papers could be got ready.

7981. Apart from your own experience connected with that Bank, have you had any people coming and complaining to you as a public man that they have not been getting the facilities from the Bank that they might expect?—I don't know of any single instance with regard to business. Of course, with regard to young men seeking cadetship or appointment, I have had cases.

7982. (*Chairman.*) That is common to any institution. I think those are the questions directed towards your very interesting practical experience which I wanted to ask you. Are there any further aspects of the questions opened in your memorandum which you would care to further explain?—There is one matter I suppose that is already covered in a way but there is one matter which I would like to impress upon the Honourable the Commissioners and it is this. The peasant's view with regard to currency has not been particularly rational or logical. I am not concerned with logic or with pure ratiocination. But feeling must be taken into account when dealing with a large number of people. Now, with regard to this exchange at 1s. 6d. they say that "before 1914, I had come to the conclusion because that was the rupee sanctioned by the *sircar bap*, that is the Government, that Rs. 15 was the intrinsic value of the sovereign. If I sold wheat or linseed or jute in those days, if I sold a Rs. 100 commodity—(because he is after all a producer of raw goods)—then I used to get Rs. 100. Out of that I had to pay fixed charges, that is the Government revenue directly or indirectly and various taxes. That absorbed 60 rupees and then after having those I had Rs. 40 in my pocket to deal with for my own purposes. Under this 1s. 6d. ratio, I get only Rs. 87, and the fixed charges are the same. Therefore I have to pay Rs. 60 out of that and for internal purposes, for money purposes, I have to deal with my wants with Rs. 27, whereas I had Rs. 40 then. One objection may be made that your rupee is more valuable. But the value consists in this—provided he was a buyer of imported goods; but he very rarely buys imported goods except Manchester piecegoods. Therefore he thinks, and he attributes all his misfortune to the Government and says, the all-powerful Sircar could put it down, but instead of putting it down, the Sircar Bahadur is allowing me to be cheated of Rs. 13.

7983. That is not an unfamiliar point of view. A critic of your friend, the peasant, who advocates that argument might say to him, might he not, if he thought his intelligence was capable of apprehending so profound a matter, that although you may be getting less rupees for what you are selling, you are paying less rupees for what you are buying, and then your peasant might find it convenient to look at both sides of the picture instead of only one?—This is the point which he makes, that I do not buy anything except probably cloth which is imported. With regard to the bigger people, the bigger merchants and so on, it may be favourable to them, but it is not favourable to me.

7984. Is a man who only sells and never buys a common phenomenon in the economic world?—I did not mean that. He does buy as everybody else, but so far as he is a seller and so far as his export from the country is concerned, he deals in wheat, linseed, jute and various other products. Then he gets his money, he has to pay. If he dealt with manufacturers or with large concerns, probably he would have to buy what is imported into the country, and therefore the two would equalise, but in his case his answer is, "I do not buy." I can get all that I buy created in my own country. Therefore I am not dependent upon what is imported from outside.

7985. If you were supporting him in that argument you would be adopting the contention that the price of imported articles has no effect upon the price of articles grown and consumed only in the country?—Yes.

7986. (*Chairman.*) We are much obliged to you for your further explanations and for your very full assistance to-day.

(*The witness withdrew.*)

TWENTY-FIRST DAY.

Tuesday, December 29th, 1925.

PRESENT:

The Right Hon. EDWARD HILTON YOUNG, P.C., D.S.O., D.S.C., M.P. (*Chairman*).

Sir Rajendranath Mookerjee, K.C.I.E., K.C.V.O.
Sir Norcot Hastings Yeeles Warren, K.C.I.E.
Sir Reginald Mant, K.C.I.E., C.S.I.
Sir Alexander Robertson Murray, C.B.E.
Sir Purshotamdas Thakurdas, C.I.E., M.B.E., M.L.A.
Professor Jahangir Cooverjee Coyajee.
Mr. William Edward Preston.
Mr. G. H. Baxter, Mr. A. Ayangar, } (*Secretaries*).

Mr. D. P. Khaitan, representing the Indian Chamber of Commerce, called and examined.

7987. (*Chairman.*) Mr. D. P. Khaitan, you have come to assist us this morning as a representative of the Indian Chamber of Commerce?—Yes.

7988. The Indian Chamber of Commerce have been good enough to provide us with a very full memorandum,* so that we understand that on this occasion you will be explaining the views of the Chamber and not your own personal views. Would you, in the first place, tell us for the sake of our record what is the nature of the interests represented in the Indian Chamber of Commerce?—The Chamber consists of members, some of which are banks, some of whom carry on export and import business, some of whom have got jute mills, some have got cotton mills, some are connected in chemical industries, some are engaged in dealing in Indian piece-goods, some in foreign piece goods, some in country produce, some in jute and in fact almost all the various kinds of business carried on in Calcutta are represented.

7989. What is the membership in numbers?—130.

7990. In what year was the Chamber originally founded?—It was founded this year.

7991. It is a new institution?—Yes, Sir.

7992. I will ask you just a few questions upon the memorandum in order to clear up any point that may seem doubtful. In the first place, in paragraph 3, you say, "For a Government to use its currency-issuing authority to pass into circulation as standard currency over-valued coins is open to gravest exception." By "over-valued coins," do you mean any form of token coin?—For example, in our case, the rupee which is intrinsically worth only about $\frac{11}{16}$th at the present rate of exchange and present value of silver in terms of gold.

7993. That would include any form of token coinage?—Yes, it would.

7994. Would you amplify a little why it is open to the gravest exception for the currency issuing authority to pass such coins into circulation?—Our Committee has a distinction in mind about the really subsidiary coins used as subsidiary coins and standard coins; for example, the rupee has been passed as really the standard coin of the country.

7995. How would you define a standard coin?—The definition of standard coin as we understand it is this: For example, the rupee is not compulsorily convertible into gold of which it is supposed to be a token. The paper currency notes are convertible only into rupees and not into gold. Now the rupee passes as standard coin because it is not compulsorily convertible. If it had been convertible into gold and gold coins were in circulation, the gold coin would have been the standard coin as representing the standard of value. But the rupee not being worth actually as it is intrinsically, it should be supposed to be a subsidiary coin but is really passed as a standard coin.

* Appendix No. 39.

7996. It still leaves me in a little doubt as to what the characteristics of a standard coin are. I suppose that coin is the standard coin of a currency which is in that currency unlimited legal tender, is it not?—Yes; there is the distinction which we understand.

7997. That is the quality of the convertibility?—Not really the quality of the convertibility. Not only the quality of convertibility but also the fact that the rupee by itself does not represent the real value. In order to ascertain its real value you have also to consider the rate of exchange prevailing, and the amount of gold that the rupee can buy is really the standard of value.

7998. Then you would not admit any coin in substance to be a standard coin except a gold coin?—Yes; as gold is the standard of value gold coin would be the standard.

7999. You were going to tell us what the very grave exception to the passing into circulation of an over-valued coin in the sense of a token is?—A standard coin should also be a store of value. It is not simply the standard and measure of value but also the store of value. Now, the rupee is very much misunderstood and then by reason of the fact that the rupee passes as standard coin it leads to the greatest amount of misunderstanding.

8000. May I direct your attention rather more immediately to the point which I thought required explanation? Is it really open to the gravest exception that a Government should pass into circulation any token coin, any over-valued coin?—As the standard coin. If it is done as a subsidiary coin, it would be a different matter. For example, our pies, the copper pice, or the nickel two-anna bit, there is no objection to them. Everybody understands them as subsidiary coins.

8001. I quite follow you. Will you point out whether you would extend that objection to any note issue, because a note in many currencies is, of course, a token in the sense that it is over-valued and yet it is standard currency in the sense that it is unlimited legal tender?—Yes, but the note denominated in terms of gold can be converted into gold; but our rupee cannot be.

8002. The point which you emphasise is that there must be a stable relation to gold?—And convertibility.

8003. And convertibility?—Yes.

8004. But why necessarily convertibility if there is a stable relation? Supposing the gold value of your standard coin is stable, why do you then lay emphasis on convertibility?—Unless it is convertible, unless the people can give Rs. 15 and get a sovereign, the rupee passes and the people have not that confidence in the rupee as they would have if the rupee were convertible into gold; and whatever the standard of value is, that should be quite apparent on the face of it.

8005. Supposing they find out that they cannot get a sovereign for Rs. 15 but that they can always get a sovereign's worth of Rs. 15, then is there any objection to such an issue?—Even then, Sir, there would be that objection that people should be able to see what really the standard of value is. They should know on what standard of value dealings are carried on in the country and if they want that standard of value to be in their hands, they should have the confidence that at any time, the token coin that is passing in the country is convertible and they can get the real standard, the gold in exchange for their token coins, in order to have the fullest confidence in it.

8006. If for a reasonably long period of time they find that the gold value of the rupee is stable, and that they can always get a sovereign's worth of gold for Rs. 15, even though there is not direct convertibility, will that not give them the confidence in the standard of their currency which you say is essential?—I do not think so.

8007. Would not that be a question of time?—On the other hand, if gold coins are once passed into circulation and the people see that the rupees can be converted into gold coins, then after the lapse of certain period, it will be possible for people to have that amount of confidence. But if at the start we begin on the wrong side then the difference will continue and the confidence of the people in India at present having regard to the great changes in value that have taken place in the rupee, has been very greatly shaken.

8008. Your point is that there is only one way to teach people confidence in the stable gold value of the rupee and that is to enable them to get gold for their rupees?—**Yes.**

8009. In the next paragraph you say, " Like other countries, she has a right to be paid for this net surplus of commodities and services by a transfer of gold from other countries." Do you look upon the acquisition of gold as a good in itself?—Yes; the country exports more than she imports and she has a right to get the balance in the form of gold. If other countries want that India should not import gold and should not receive gold in return for goods and services, they are quite at liberty to offer more attractive terms of investments to Indians in other countries.

8010. I have noted that point in your Memorandum elsewhere. The question to which I want to draw your attention now is this; is it an end in itself to a country to get as much gold as it can?—India requires capital for her industrial development, for her agricultural development and for that purpose it is desirable that gold should be in circulation, that gold should be imported, should be passed as coins, should be in circulation in the form of coins in order to furnish the capital that is so much needed.

8011. I do not quite follow that. You cannot use gold in circulation to build a factory; you want goods for that, don't you?—But those goods can only be bought with gold.

8012. Why?—The other countries have to be paid in gold. Firstly, India exports her stuffs and in return she gets certain commodities and the balance is made up by the import of precious metals. Now those precious metals either are forced into other channels or can also be utilised as currency. Now if they are utilised as currency the country has got that amount of capital with which they can import machinery or build their own factories and help in agricultural and industrial development which is so much needed.

8013. But supposing India wants engines for her railways, then in order to buy those she must leave the proceeds of her exports abroad to pay for them, must she not?—It does work out like that. It is only the difference between the import of commodities and the export of commodities that is imported in the form of the precious metals.

8014. As a matter of fact statistics show that India has been obtaining lately an enormous amount of gold?—Not in proportion to her population.

8015. I am sure I do not know what standard you apply there. Whether it is big or small in proportion to her population, would it not be very large in proportion to the amount of gold required by the population of any other country?—How could you say that? India has one-fifth of the population of the world and her imports of gold have not been anything like that one-fifth.

8016. Have you compared the statistics of the amount of gold which, in the course of the last 20 years, has been absorbed by the population of India as compared with the amount of gold that has been absorbed by the population of any other country?—You must know what has been chiefly responsible for it. Now since the 2 shilling ratio was put on the statute-book it was not possible for the inhabitants of this country to tender gold to the Government and to get currency instead. If the 2 shilling rate had not been placed on the statute-book it amounts to this, that whatever gold was imported must go into the country for absorption merely, it could not be utilised for the purpose of currency. It is quite true that after that the Government to a certain extent bought sterling bills and issued currency against it; but even that was not done to a sufficient quantity. Therefore I hope, Sir, you will agree with me that the people of this country are not responsible. Secondly, to a certain extent gold is required by the people of this country on account of their social customs, on account of their traditions they do use gold in the form of art.

8017. Is it your opinion, then, that a large amount of this imported gold is only waiting to come out in the form of currency as soon as there is an effective ratio between the rupee and gold?—Simply an effective ratio would not do it. In course of time if you circulate gold coins that will be the result because then people will learn that gold can be used in the form of gold coins also.

8018. The difficulty I want to put to you is this. If the people who took this gold had wanted anything else they could have got it: they could have got it in the form of commodities, by buying them?—I cannot follow you.

8019. You have people in India who have imported these large amounts of gold in the course of the last few years. If they had wanted something else, cotton goods or any other form of commodity, they could have had them by buying them. Even now if they pleased they could take their gold to the brokers and get currency for the gold. If they have not done so, and do not do so, does not that show that they have taken this gold because they want it for domestic uses, as you say, or for hoarding as a store of value. That being so, what reason is there to expect that this gold will ever come out to be coined?—So far as hoards are concerned—you used the word hoard also—I do not think there is any hoard of gold in the form of gold bars or anything like that. Whatever gold has been bought by the people has been converted into ornaments and much of it is due to our social customs. Now that amount of gold will always be taken by India, there can be no doubt about it; but with the progress of education, with the development of banking facilities, with the training of the people in investment in productive channels instead of converting their surplus wealth so to say into the form of ornaments and jewellery, they will come out to invest them in productive channels and the result that you mention will come about and gold coin will really facilitate that. For example, if a man buys some gold at present the only way in which he can keep it is by converting it into ornaments, but if he can get gold coins he would rather go in for gold coins solely because that would be a very good method of storing it and it can be easily reinvested or re-spent for domestic purposes as also for any purpose he wants; but if the gold is converted into ornaments it must needs be—in the absence of gold coins, the result is that he has to sell a part of his ornaments and there is loss of prestige and several other things which I have mentioned in the memorandum take place.

8020. Now let me put this question to you. Where would you draw the line? If India ought to get gold from abroad, if it is a good thing that she should get gold, then I suppose a critic might say in regard to your argument: "The more gold she gets the better"; so that to carry the matter to the limiting case it would be best of all if she were to take payment for the whole of her exports in gold, which is absurd. Where do you draw the line?—The line is necessarily drawn by the exports on the one hand and on the other hand the imports of goods and the current requirements for Home remittances. Now these are the two boundary lines which must always exist and it is only the difference between the two that can be supplied in the form of gold. Now to a certain extent silver is also required for the very same purpose as I have mentioned for gold, and the difference will be made up and must be made up by gold. Either you would keep that gold outside India or inside India. You could keep the gold outside India as trustees for India, or the Government could keep the gold in India itself. I do not know of any other method in which it could be done or whether it is desirable for the sake of winning the confidence of the people to try any other method. I suppose, Sir, that is the method of the whole world and there is no reason why any other method should be adopted for India.

8021. Do not you think it is the case that what has been happening is this. India has been exporting so much, against which she has been taking the imports of commodities and the gold which she requires; that what is called the balance of trade settled in gold has really been the measure of India's demand for the commodity gold; and that there is no reason at all to suppose that there is any unsatisfied demand for gold year after year in India. If it had required more it could have got more, couldn't it?—Well, Sir, I do not quite follow that. You say there is no unsatisfied demand.

8022. You talk about the settlement of the balance between imports and exports in gold. What is it that decides the total volume of imports against exports? Must you not reckon in gold as one commodity like any other which is taken by India in the settlement of her exports? If she required more gold she could have got more gold and fewer commodities. If she required more commodities then she would take less gold. It is difficult to see why there is any evidence of late years of any unsatisfied demand on the part of India for gold. What can have caused such an unsatisfied demand; what was there to prevent India from getting all the gold she wanted?—Well what we really want is that gold should be used in the form of coins as well. The people have been clamouring for gold currency but they have not been getting it and that is to a certain extent an unsatisfied demand.

8023. In the next paragraph you say: "Here lies another inherent defect of the gold exchange standard, as the Indian exchange standard has been designated. It depends for its successful operation not on the automatic working of the system as in the gold standard but on the judicious operation of the controlling authorities." Does that observation apply to the exchange system as it has existed in India?—Here we have explained that it depends for its successful operation not on the automatic working of the system as in the gold standard but on the judicious operation of the controlling authorities. By this we mean that if a gold exchange standard is to be successfully worked it can only be done so if the controlling authorities judiciously operate it; but that has really not happened in the case of India.

8024. If I may just take that point, your observation applies there to any gold exchange standard?—Yes.

8025. Let me put to you what has been advocated before the Commission as a perfected gold exchange standard. It would be perfected in this way; firstly, that the control of the note-issue should be transferred to a Central Bank; secondly, that the reserve, the gold standard reserve and the paper currency reserve, should be combined in one reserve under the control of the Central Bank as the currency authority; thirdly, that the Central Bank should undertake an obligation to buy and sell some medium for international payment, either gold or foreign exchange, at the gold points on a prescribed ratio between the rupee and gold, 13 and one-third or 15, or whatever it was. With a perfected gold exchange standard of that sort, would you still be of opinion that the automatic working of such a system depended upon the judicious operations of the controlling authorities?—Yes, so far as the operations are concerned, it must depend on the judicious operation.

8026. What scope would there be, then, for manipulation, when the obligation was definite, legal and precise, to buy and sell either gold for export or foreign exchange at the gold points at the prescribed ratio?—The first loophole for manipulation is that a bank may not do it to an unlimited quantity.

8027. That is perfectly correct. I will add, as I should have added in the first place, that these purchases and sales must be to an unlimited amount?—Let us see what happened in the case of India.

8028. May I preface, in view of your last observation, that we must recognise that this is a standard which has never existed in India yet?—The standard that did exist in India up to 1914 in the pre-war period was worked in that way. It was worked in a very perfunctory way.

8029. Must we not recognise that there was no such standard in India before the war, because there was no obligation to sell gold or foreign exchange?—There was no statutory obligation.

8030. It was simply a question of policy and option on the part of the Government?—There was no statutory obligation; but even if there was a statutory obligation.

8031. And also another great difference, that the reserves were in two lots instead of in one, and not related to the currency?—That was one of the difficulties; and the second difficulty was that there was no statutory obligation; but even if there be a statutory obligation, then from day to day the Bank cannot be watched as to whether it is doing it or not. The work has to be placed in the hands of either one person or a set of persons and whether he is doing it judiciously, whether he is carrying out the statute to its fullest extent or not, it does not leave a loophole; and the time taken between these operations . . .

8032. Let us follow that step by step: you suggest that the central bank might fail to discharge this obligation to buy and sell?—Yes.

8033. That is, that it might break the law?—Yes.

8034. Can you protect any system of currency against a currency authority that chooses to break the law?—Under a gold standard it would not lie in the hands of the currency authorities to break the law.

8035. A gold standard must include, as I understand, a note issue?—Yes.

8036. If there is a note issue, the maintenance of that note issue depends upon the observance of the law fixing the relation between the note issue and the reserves, does it not?—Yes.

8037. It would be equally open to a central bank to break that law, if it is going to go in for law-breaking?—A central note-issuing bank will have to publish weekly figures as to what the gold in the reserves is and that will be watched by the people, and if at any time the bank does not keep that quantity of gold in the reserves that will at once become apparent and there can be an agitation.

8038. The safeguard of any law is publicity?—Yes.

8039. Supposing somebody went to the central bank to sell gold or buy gold for export and was refused, would not that at once become public? The disappointed buyer or seller would proclaim the breach of the law from the housetops and say the bank was breaking the law and not discharging its legal obligation?—An individual person doing it and the publication of weekly figures in regard to the gold reserves—there is a good deal of difference between the two; and

then, if a gold exchange standard is to be operated, the bank has got to keep its reserves either in the form of gold in order to carry out that obligation or in the form of some foreign currency. Now, so far as the foreign currency is concerned the value of that foreign currency or the bills in which the gold reserves may be invested, those values may fluctuate; and that is another reason why a gold exchange standard cannot be so perfect as the gold standard. If it is kept in the form of gold, there is no reason why there should be a gold exchange standard instead of a gold standard. Because people may be allowed to use gold it does not follow that everybody will use gold instead of silver rupees or paper currency notes. Silver rupees are required for definite purposes and paper currency notes are required for definite purposes. All that the people want is the right to convert that currency into the form of gold.

8040. Might not a critic put this against you? Might he not say: " Yes; there is a very important reason from the point of view of economy, that with a gold exchange standard you save the cost of whatever gold there is in circulation, and with an exchange standard you can keep a smaller reserve because you have not to undertake the liability of internal convertibility?"—To a certain extent there may be some additional cost; I do not know: I regret that I cannot admit it at once, but in regard to a gold standard there will be that perfect safety. Nobody could break it. It will be in the hands of the people to get as much currency as they like.

8041. Let me follow out what is in your mind. Is it not certain that to have gold in currency is more expensive than to have tokens in currency?—So far as the tokens are concerned, if you were to have silver rupees there is a profit on coinage and that profit is set apart now in the gold standard reserve. It is quite true that recently that gold standard reserve has been invested. The people complain that the quantity of gold in the gold standard reserve should first not have been taken outside India, and secondly that having been taken outside India, it should not have been invested there.

8042. That raises one or two other questions, but we agree that there is an economy in tokens in comparison with gold circulation, which is realised in the form of a profit on coinage, and that profit is commonly carried to a reserve until the reserve is big enough?—Yes.

8043. Afterwards the profit may accrue in the form of relief to general revenues?—What, do you think, is preferable, the confidence of the people or the small profit that is derived by investment of a portion of that reserve? I should think that the confidence of the people should weigh much more with the Government and the currency authorities in this matter than the small amount of profit that may be derived. After all that profit is derived by levying a forced taxation on the people against their will. People want in the form of currency what they really consider to be the standard of value, and gold is the standard of value. To the extent that people of their own accord do not find it convenient or necessary to use gold coins, to that extent they submit to that taxation in the form of profits on coinage; but if you force people to adopt only token coins or only paper currency notes, it becomes a kind of forced taxation on the people, and therein to the mind of our committee lies the great difference; you ought to educate people to economise the use of gold for currency purposes, not force it down their throats.

8044. May it not be said that this profit made, if you please, at the expense of the people, first of all, as you rightly say, serves the purpose of accumulating a reserve on the assumption that an exchange standard is useful for national purposes, and, secondly, when the reserve is big enough it goes into general revenues in relief of other taxation? So that, in the vulgar phrase, is it not the case than what the people lose on the swings they gain on the roundabouts?—But you have got to consider the confidence of the people. So far as India is concerned they have been treated to fluctuating exchanges, to the alteration of the standard of value itself from time to time and they have lost all confidence in the currency system.

8045. You return to the point that the essential is to inspire confidence, and that in your opinion the only method of inspiring that confidence is by having gold in circulation?—Yes.

8046. Further on in that paragraph you deal with some of the notorious break-downs in currency systems during the war. But as a matter of fact did any currency system which was subjected to the strain of war manage to survive it, even though there was gold in circulation?—Firstly, India was not placed in that difficult position. At that time India's goods were very much required by the rest of the world, at least by those countries which were engaged in the war. There was no reason whatsoever why if the currency system were properly managed India should have been thrown off the equilibrium.

8047. Let me refer you in that connection to all the neutral countries of Europe, which were not obviously exposed to the impact of the war, many of which had gold currencies. As a matter of fact did not all their currencies break down to this extent, that they were involved in larger or smaller measures of inflation?—Take the case of America. So far as I know they always maintained a gold standard and their currency system never broke down.

8048. That might be arguable, but if you were to take the case of Holland, Denmark, Sweden, Norway, and Switzerland, how many of their currencies survived the war without showing similar dislocation?—Firstly, I must say that I do not know the conditions of those countries that you have mentioned. Secondly, in India what really happened, was a case of deliberate disturbance of the currency system. For example when the Babington Smith Committee reported, they said that the rupee should be valued at 2s. The rupee had always been valued at 1s. 4d. What was the necessity of doing that and valuing it at 2s.?

8049. Let me say that my mind was rather turned on this question of the actual dislocations of the war period, not the post-war period. In the last sentence of this paragraph you say the real standard of value being gold the token gold value of the rupee should not have been affected by any consideration, not even the rise in silver prices. When that rise in silver prices took place until it got very high, what in the opinion of your chamber should have been done?—We have got the minority report of Sir Dadiba Dalal in the Babington Smith Committee. He suggested certain remedies under which the rupee need not have gone off the 1s. 4d. level in spite of the rise in the price of silver; and it is an essential factor of a currency system that the standard should not be disturbed. The rupee is simply a subsidiary coin. That factor should never have been forgotten. You might as well say that simply because the price of cloth has gone up one yard should be equal to two feet instead of three.

8050. When the value of silver rose until the melting point of the rupee was passed, what measure should have been taken?—The silver coin should have been debased or some other steps could have been taken. At least that was the suggestion made by Sir Dadiba Dalal that there should be a two-rupee coin further debased. The rupee should have been treated as a subsidiary coin. Now, Sir, suppose the price of silver goes up, what would happen to shillings in England? Do you think they would go up to 19 shillings to the pound.

8051. They were in fact debased as we know. The silver content was reduced?—Yes.

8052. What in your opinion would be the social, and, indeed, the political reactions upon the Indian people of a reduction at that time, or indeed at any time, of the silver content of the rupee?—There could have been none. On the other hand, the agriculture and industries of the country would not have suffered the depression that they did as a result of the fluctuations and this upsetting would not have come into existence by changing the standard of value.

8053. I am merely trying to elicit your expert evidence from your acquaintance with the habits and customs of the uninstructed Indian public. Take the case of an up-country Indian village. What would happen in that village at any time if it gets about that the rupee has no longer so much silver in it as it used to have, or if an attempt were made to substitute some other form of coin for the rupee, under any conditions. Do you think it would go smoothly, or do you think it would cause a great disturbance to the public mind?—Now, Sir, what happens at present? The silver rupee goes into the villages and the man there buys some silver with the rupee and he finds that he can buy about 33 per cent. more than the weight of the rupee. Now, he knows at once that the rupee is an over-valued coin and if you will excuse me——

8054. I do not quite follow you. You are picturing somebody buying silver with his rupees?—They do buy silver with the rupee.

8055. And he finds he can buy more silver than there is in the rupee?—Than the weight of the rupee itself, apart from the question of how much silver there is. For 75 rupees you can buy 100 tolas of silver and he knows that the intrinsic value of the rupee coin is not the artificial value which it has got owing to certain reasons which he can't understand, which only persons versed in the science of currency can understand, but which he does not understand, and, Sir, he abuses the Government. He says that the Government is giving us coin not of its full value, they are making us use coins which are not the real value. Now, that certainly is a position which does not do much credit to the Government or inspire confidence in the people.

8056. Won't he abuse the Government even more if the Government gives him a coin which is still less in its face value than its bullion value?—But, Sir, if alongside of it they know that they can get gold whenever they want it, that there are gold coins in circulation. Now, take the case of the copper pice. Now they know that 64 pice can be converted into a silver rupee. And if they knew that 15 silver rupees can be converted into a gold coin that position would not arise?

8057. If he knows that he can get gold for his rupees he will not trouble how much silver there is in the rupee?—Simply gold is a different matter and a gold coin is a different matter. They can buy gold bullion.

8058. Now we come to paragraph 6, where you deal initially with the question of the relation between the rupee and gold. You argue that " pre-war contracts valued at 113 grains of fine gold which required the payment of Rs. 15 still require the payment of the same number of rupees but which are equivalent to about 130 grains of fine gold." What is the character of the contracts which you have in mind there which were made before the war?—Firstly, the land revenue, they are fixed in terms of rupees. Then all borrowings of the agriculturists—they are in terms of rupees.

8059. For what terms are these borrowings usually made?—You mean the rate of exchange?

8060. No, what length of time?—It is estimated that there are about 800 crores of rupees to which the agriculturists are indebted in the country.

8061. When an agriculturist borrows money in this way, for what length of time does he borrow it?—It goes on from year to year and the poor agriculturist is always indebted and the loan continues and they cannot get rid of their indebtedness.

8062. But it is formally repayable at any time?—There are two kinds of contracts. One is mortgage and the other is ordinary loans.

8063. For what period are mortgages usually made?—In debentures the periods are long.

8064. Yes, in higher finance, in bigger trade?—Yes, Sir. So far the agriculturists are concerned, the period mentioned in the mortgage is not long but a mortgage is allowed to continue for a long period.

8065. What is the normal period for a debenture to be repayable?—There are several kinds of debentures, 10 years, 20 years. There may be longer terms.

8066. Is ten years the usual minimum period?—I should not say that but the debentures continue longer and they have to continue on the same basis.

8067. The ordinary loans are, as you say, repayable at any time, but the borrower may not have the money with which to repay?—Yes, Sir. They go on continuing that loan in that way on the same terms. I have mentioned the large amount of preference shares on which the dividend is paid at a fixed basis.

8068. They are all fixed investments, no doubt. Then further down you say: " In other words, all debtors have now to give 130 grains of fine gold to discharge their existing contracts instead of 113 grains for which they really contracted." Should we limit that by saying " all debtors on these long term contracts "? You do not mean absolutely all debtors, do you?—We mean all debtors who have continuing obligations. Debts that have already been discharged don't come into consideration but all the contracts which have not been discharged continue on that basis.

8069. Can you give the Commission any guidance as to the relative volume of interest involved in contracts entered into on the 15 to 1 basis and still continuing, and contracts for a shorter term which have been entered into upon ratios of the rupee to gold which prevailed since the 15 to 1 ratio?—You mean, Sir, all short term contracts relating to.

8070. The relative volume of interest involved in the short term contracts and these long term contracts?—Well, so far as short term contracts are concerned, those that have been discharged are discharged. And the land revenue, debentures, preference shares, and mortgages, all these contracts are continuing, they are continuing while the short term contracts have been discharged and gone off. The term in a certain contract may be a short term but if it is continuing it comes under this.

8071. Nevertheless, under these conditions the debtor has his remedy, has he not, and that is to repay the loan?—He must have the money to repay it. If his buying power disappears, if he gets less money, then his capacity to repay the loan gets reduced still more.

8072. I will come to the question of his capacity in a moment, if I may. As a matter of fact, is not the vast bulk of contracts entered into from day to day in any country contracts for purchase and sale, and are not such contracts typically short term contracts which either exhaust themselves on the spot by the passage of cash or exhaust themselves within a period of, say, at most three months on the discharge of the bill or some such security?—I don't quite follow how that would affect the position.

8073. I am trying to see the difference in the volume of interest involved in long term contracts and short term contracts, and the suggestion may be put that by far the largest volume of interest involved in contracts made from day to day are those involved in contracts for purchase and sale?—How would that affect the situation at all? For example, if a man has entered into a contract, he covers his exchange.

8074. I think that is a question to which a simple answer is really the most informative. Is not that, as a matter of fact, a feature of commercial life, that the great volume of contracts entered in from day to day are contracts to buy and sell some commodity?—But, Sir, they cannot affect the postion so far as currency is concerned? They are self-liquidating contracts, where a person buys and sells on the same basis. Unless a person holds goods as a speculator, which is a different matter, they are all practically self-liquidating contracts. If I am an exporter I buy jute on the one hand in India and sell the jute in England or Scotland or Germany or America at the same time. Therefore, they are always covered, one against the other. Now, so far as the long term contracts are concerned, they are really continuing

contracts whose position is really affected. Contracts that are covered one against the other, their expenditure may be very large but they are really not affected. For example, Sir, if a banker buys bills he also sells bills against it. He does not lose or gain. Similarly, an importer, if he buys goods from Manchester say or any other other place, he also buys sterling bills, he enters into contracts for sterling against it. So they always cover one against the other.

8075. The final question on this point is, when we are considering the volume of interests affected by the different ratios, can you give us any guidance as to the relative volume of these long term contracts now outstanding entered into at the ratio of 1 to 15 and those entered into at the various ratios which have been in force since the departure from the ratio of 1 to 15?—No, Sir, there can really be no comparison at all until all the agriculturists, who constitute more than 75 per cent. of the population, are affected in this way. Supposing an agriculturist produces goods. He has got to sell that on the basis of the existing high rate of exchange. But all his obligations have been defined in terms of rupees so that the whole of that population is affected by the high rate of exchange. Then, Sir, take the case of the manufacturing industries. Their case is exactly similar. Their fixed obligations are fixed in terms of rupees, but they have got to sell their products on the basis of a high rate of exchange, that is 12½ per cent. lower. Similarly with the coal mines; the miners' fixed obligations are in terms of rupees, their wages and everything, but they can sell their products only on the basis of a high rate of exchange that is lower in terms of rupees, so that what may be called the margin gets reduced in the case of the producers without any exception.

8076. As regards the position of the producer, what would be your opinion on this consideration, that owing to the fact that the rupee now stands at 1s. 6d. he will be getting less for what he sells than he did when tho rupee was at 1s. 4d., but, on the other hand, he will be paying less for what he buys, and so he is no worse off than he was before?—He *is* worse off. Let us take the case of coal, coal going from Jharia to Delhi. Now if coal sold at Rs. 6 at Jharia and the railway freight was Rs. 9-10, the cost to the consumer would be Rs. 15-10. The Delhi consumer who is selling his products lower also wants to buy his coal cheaper by 12½ per cent. Now reducing by 12½ per cent. from 15-10, it comes to Rs. 13-10. The railway freight remains the same, Rs. 9-10, so that the colliery, instead of getting Rs. 6, gets Rs. 4 only. As against that, he has lost Rs. 2. The colliery at the same time has got to pay a certain amount of rupees in wages. Now, I got figures from the Indian Mining Federation, and they said that a colliery was raising 2,500 tons of coal per month. Out of Rs. 4-10, their raising cost, Rs. 4 represented wages which were fixed on the basis of rupees. They had to pay the same amount of wages, and that is the reason why simply on account of exchange being at 1s. 6d. they cannot make any profit; their wages are the same, the railway freight is the same, their fixed obligations on their loans are the same, and ultimately they get so much less.

8077. On the other hand, we have had it in evidence that there have been in fact reductions in railway freights; I rather think that coal was one of the actual freights specified. What would be your opinion on this contention received in evidence that there is a constant tendency of late years for wages, for instance in the coal mines in India, to rise, and that the effect of the rise in the rupee has been, if not obvious in the reduction of wages, at any rate to prevent what would otherwise have been a further rise?—Now, Sir, a rise in wages can only take place when the mill or the mine concerned makes profits.

8078. Is that so? That is not the experience of less fortunate countries?—I do not know what happens elsewhere, but in India the labourers claim an increase in wages when they find that the owner of a mine or a mill makes profits. Then they agitate for it. But once the wages increase, if you try to decrease them, there is much agitation as we have recently seen in Bombay. Wages rose when the cotton mills were making extensive profits, but when as the result of losses they tried to decrease the wages, there was a strike and there was so much confusion. Similarly at any other place if wages are sought to be reduced there would be strikes, there would be an upsetting of the whole economic system so far as that branch of the trade is concerned, and it would lead to liquidations, bankruptcies, and so in the process of the adjustment to a higher level of exchange we shall have to pass through so much confusion and so much depression;—and then Government has not shown any alacrity to reduce land revenue or anything so far as the agriculturist is concerned.

8079. I will return to that on a later point of your memorandum. Then you say in paragraph 11, "there should be an obligation to give gold in return for paper notes or silver rupees. It is certain that after convertibility has been maintained for some time, the people will of their own accord adopt a habit the result of which will be to dispense with the actual use of gold for internal circulation. It would not therefore be a difficult matter to maintain the convertibility of the rupee eventually if it can be done in the initial stage of the adoption of a gold standard. In fact, having regard to the large volume of rupee coins and notes that will always be in circulation, convertibility of the rupee will have to be a permanent feature of the monetary system." That you expand further on in your memorandum. Then in paragraph 12 you pronounce a considered opinion against a managed currency upon the lines advocated in certain quarters, and in paragraph 14 you return to the question of the ratio?—Might I be allowed to correct a printed mistake in paragraph 13. "15·4d." ought to be 1s. 4d., in line **six**.

8080. That may be corrected on the proof. Then you say in paragraph 14: "On the other hand, Government continued their programme of contraction—at least of keeping the country starved of currency—with a view to push exchange to a high level." It has been suggested that the Government has intervened of late to keep exchange from rising above 18d. Have you any opinion on that?—I am rather surprised to hear that. What really happened was that the 2s. rate was put on the Statute Book. As a result of it no gold could be tendered to the Government and there could be no expansion of currency. Even the Bengal Chamber of Commerce had to protest against it about a year or two ago. What the Government did was that to a certain extent they purchased sterling bills and issued currency against it, but they did not do it to the fullest extent. They did it to a certain extent to keep exchange at 1s. 6d. They did not go further and give more currency than was required to keep exchange at the pre-war level of 1s. 4d.

8081. Apparently that statement does need to be supplemented by the consideration that of late the Government has taken certain measures to keep exchange down to 1s. 6d.?—We read it in the other way. The fact was that the Government prevented an automatic expansion of the currency, and after that to a certain extent issued currency by the purchase of sterling bills, but they did not do so to a complete extent; they kept the country starved of currency. In that case exchange would have gone up.

8082. In your opinion if the Government had not intervened the exchange would have fallen naturally to 1s. 4d.?—But, Sir, Government ought to have kept the proper rate on the Statute Book to enable the country to deliver gold to Government and obtain Indian currency against it. You cannot block the door against the issue of fresh currency and then say that instead of Rs. 10 we have given you Rs. 5 and be satisfied with the Rs. 15 on the principle that half a loaf is better than none.

8083. The immediate question is what would have happened to the exchange if Government had not intervened: would it have risen above 1s. 6d. or would it have fallen?—If Government had accepted Sir Purshotamdas Thakurdas' Bill and put 1s. 4d. on the Statute Book, people would have tendered gold to the Government and got Indian currency, and it is our firm conviction that exchange to-day would have been ruling at 1s. 4d. instead of at 1s. 6d.

8084. Undoubtedly, by taking appropriate measures the Government could have reduced the rate to 1s. 4d., but do you agree or do you not agree that, but for the active intervention of the Government to reduce the rate, the rate would have risen above 1s. 6d.?—If the Government does not issue any currency, if the country has got to do with whatever currency it has got, and the amount of currency to meet development is not issued, well, exchange might have gone up to 1s. 8d. or 2s. But that is what the people are clamouring against, and that door should not have been blocked by putting the 2s. rate on the Statute Book.

8085. Then you say that "even therefore leaving out of account Government manipulations, 1s. 6d. cannot be thought of as a natural ratio." Could you explain what you mean by a natural ratio in this connection?—What we mean is that we have seen four good monsoons. Now in spite of that the buying power of the country has got very much reduced, and then if there is a bad monsoon and then if there be further operations of the Government, and we do not know which side it would be, then the exchange may be again disturbed. It cannot be said that exchange is stabilized, or that matters have adjusted themselves to 1s. 6d. It is simply artificial, it is not the result of natural forces working.

8086. On what evidence do you base the conclusion that things have not adjusted themselves to 1s. 6d.?—The railway freight has not been adjusted, wages have not been adjusted, interest is not adjusted—nothing has been done at present, there are all these obligations, on the old basis.

8087. Recognizing that interest on long-term securities and so on does not adjust itself, on what evidence do you base the conclusion that prices in general have not adjusted themselves to the 18d. rate?—The question of prices adjusting themselves cannot arise because the prices must be governed by the world prices firstly, and secondly by the rate of exchange. Now if £1 be the price of a certain quantity of wheat and if exchange be at 1s. 6d. the price in India will be at Rs. 13-5-4. If exchange was at 1s. 4d., the price would be Rs. 15. There can be no question of prices adjusting themselves. It is these obligations which have to adjust themselves in order to bring to the producers the same margin as they would otherwise get.

8088. I gather then that, in your opinion, there can be no question of prices adjusting themselves in the sense that they must adjust themselves?—Prices must be ruled day to day by world prices and the rate of exchange.

8089. So that if the rate of exchange changes from whatever rate is current on a given day, then prices must adjust themselves to the fresh rate?—Yes.

8090. At the beginning of paragraph 16 you say: "Apprehensions are often expressed that if gold coins are allowed to circulate in this country there will be a great scramble for gold in the world market, that commodity prices would fall and trade and industries in the world would suffer. The Committee cannot, in this connection, conceal their feelings of resentment that such a question should be raised in the case of India alone. India must have the right of her economic self-determination. Does your Chamber consider that the possibility of a sharp change in world gold prices as the result of any additional demand for gold for India is a matter which has no concern from the point of view of Indian interests?—Firstly, they think that there cannot be a great scramble for gold; secondly, we think that if India gets more gold, the other countries also would adjust themselves on the same basis and India will follow other countries in the world. We do not see how there could be a great economic disturbance simply by reason of the fact of India adopting a gold standard.

8091. Let us take it in two steps. Assuming, for the purposes of our discussion, that there were such a disturbance in world gold prices, that would, would it not, be a matter which would affect Indian interests?—We would like to follow the world in that respect.

8092. Supposing it is a case of India creating the disturbance by her additional demand for gold?—I do not see how India would create the disturbance. As I have already stated, India has never taken even one-fifth of the world production of gold which her population would justify and therefore, this cannot be said against India that India is creating any disturbance.

8093. In this question I am asking you to make the assumption that the demand for additional gold resulting from the adoption of this currency policy did create a disturbance to world gold prices. That is the assumption?—How can I make the assumption; I cannot believe in it.

8094. You will not even make it for the purposes of discussion?—No. Sir.

8095. You are quite entitled not to make it, but I should like to put the question just to bring out all possible bearings. Supposing one were to make that assumption, then it would become a matter for consideration from the point of view purely of Indian interests as to whether the policy was in the interests of India or not?—Sir, my committee are so strong on this question that you might as well ask me to assume that I am not sitting in this room. My committee do not think that there will be any such contingency arising.

8096. I understand that in your reply you are basing yourself upon the opinion expressed in paragraph 17 that India has already enough gold in her reserves to immediately undertake the obligations of this policy?—Yes; we think that our reserves are very strong and you can introduce gold standard and gold currency on the strength of the reserves that we have got.

8097. What would be your reply to this possible contention of a critic? The gold which India now holds in her reserves is that amount which experience has shown to be no more than is necessary in order to fulfil the function of maintaining the exchange value of the rupee. If to that liability is added the further liability of redeeming the rupee currency in gold, that will of necessity imply the accumulation of an addition to the present gold reserves? Do you follow that question?—I quite follow that question.

8098. The point is this, that at present against these assets of gold, you have a corresponding liability for maintaining the exchange value of the rupee, and the assets are fully pledged against that liability. If you are going to undertake the fresh liability of the internal conversion of the rupee into gold, you must need more gold in the reserve?—Now, Sir, let us understand each other perfectly well. Do you think that there is going to be a large rush for gold coins in exchange for the silver rupees that are already in circulation? If that be so, Sir, my committee is very strongly of opinion that such an assumption or such an apprehension would be very much ill-founded. Now what is after all the volume of currency in circulation? It is at best 300 crores of silver rupees and 190 crores of paper currency notes. Now we have got about 685,000 villages in India, over 2,000 towns and more than 2,000 crores of rupees worth of crops to serve 32 crores of people, inadequate banking facilities, no sufficient facilities for the encashment of these notes and exchange of silver rupees and paper currency notes. All these things have got to be done in terms of notes and silver rupees. In what circumstances can there be a great rush on the existing reserves for conversion into gold coins? Now we have

here to draw a distinction between the issue of fresh currency and a rush for conversion of the existing rupees and notes in circulation into gold coins. Now you cannot think that the people of India would one day sit in conspiracy and decide not to eat or drink or do any business and come to Calcutta and Bombay to get their silver rupees and paper currency notes exchanged into gold coins. Now the paper currency notes serve a distinct purpose. They are mostly dealt with by banks and the bigger merchants and serve also the purpose of transmission from one place to another. The silver rupees are required for the smaller transactions and the 32 crores of people in India have got to use the silver rupees for their smaller transactions. After all how much does it work up to? It does not amount to Rs. 10 per head of the population. That is a very small amount and we cannot think of any circumstances in which there could be a rush for the conversion of those silver rupees of paper currency notes into gold coins. Why should the people do it? Can they stop their dealings? Can they stop their business and stop everything in order to carry out their fancy of having gold coins? They must go on carrying on their business in the usual way. They must carry on their dealings.

8099. I understand it is the opinion of your Chamber that, as far as the rupees and notes required for circulation are concerned, there is no apprehension that there will be any demand for their conversion into the bigger unit of currency, the gold unit?—Yes.

8100. In the first place, is that quite certain? In view of the desirability of the more valuable medium of circulation, gold, particularly after a period during which gold has not been available for that purpose, is it quite certain that you would not have people presenting notes for conversion into gold in order to touch the more precious medium?—What happens is, always fresh currency is required from year to year. Now if Government will say that they will issue fresh currency against delivery of gold, fresh gold would come to the Government and in exchange for that some gold coins would go into circulation. But for the purpose of mere conversion, for the sake of fancy of having gold coins, we do not think that people will send their silver rupees or paper currency from the interior to Calcutta or Bombay. So far as the fresh currency is concerned, i.e., new issues, that will be issued against the delivery of gold to Government.

8101. Would it be wise for any responsible authority to undertake the obligation to convert rupees and notes in circulation into gold without making provision against the possibility of an additional demand for the conversion of the outstanding medium of circulation?—So far as my committee is concerned, they do not think there is any such apprehension.

8102. I understand you think that is a risk which is quite inconsiderable?—Yes.

8103. In the second place, as regards the outstanding rupees, must one not distinguish between two classes, those which are in active circulation and those which are held by various holders as stores of value in what are commonly called hoards?—Silver rupees in hoards?

8104. Yes?—I do not think there are any silver rupees in hoards. Who would hoard them? First of all there are the agriculturists who consist of 75 per cent. of the population. Far from hoarding, whenever they have to meet expenses of even Re. 1 or Rs. 2, they go to the village sowcar and borrow money. They have to borrow money in order to meet their day to day wants. So far as the merchants are concerned, they are much too clever for hoarding silver rupees and I do not know which other class of people would hoard and why should they hoard silver rupees which are so much over-valued? And the amount of currency in circulation, 300 crores of rupees, is so small as to exclude any possibility of hoards. We do not think, Sir, that there is any such thing as hoard of silver rupees in India. I do not know if the Government has got testimony of it and it will be of much interest to know what evidence Government has got of there being hoards of silver.

8105. It is suggested, for instance, that there are very large hoards of silver rupees held by certain Native States. Have you any information on that subject?—We have heard of the Nizam having certain hoards; but so far as these are concerned, either they want to convert them into gold or they do not. If they want to convert them into gold, they must have done so when gold has been so cheap, at Rs. 21 or thereabouts, instead of waiting for higher prices or for gold to come in. If they want to keep them in the form of silver rupees, there is no reason for those silver rupees coming out in rush and being converted into gold coin. The Native States, if they have hoards of some silver rupees, they must be in the same way as the paper currency reserve in British India has got some silver rupees in the reserve. They would continue them in the form of silver rupees but if they wanted at any time to change them into gold they have had this cheap gold for a long time and they must have converted it.

8106. It is the proposal of your Chamber in paragraph 23 that, "after convertibility has been declared, the rupee may be made a legal tender within a limit of Rs. 1,000 only." If the rupee is to cease to be full legal tender, would not that constitute a very strong motive for any holder of rupees in hoards to convert them into gold?—No, Sir. So far as this Rs. 1,000 is concerned we have placed this limit in view of the fact that all dealings which are carried on in silver rupees would be carried on in silver rupees if a limit of Rs. 1,000 is placed; and so far as hoards are concerned, I have already explained to you, Sir, that anybody who wanted to convert those hoards into gold—we do not think that any such hoards exist to any large extent, at least the people of British India have not got them; but if the Native States have any hoards worth consideration and if they wanted to convert them into gold they must either have done it or they would not do it.

8107. Suppose that I am the holder of a large rupee hoard. As you say, I might have converted my hoard in the open market. I did not do so. Now I see an announcement that the rupee is to cease to be full legal tender. Would not that constitute a very strong new motive in my mind for the conversion of my rupee hoard into gold?—What would be the change in the circumstances then? Now let us assume for the sake of this discussion that some Native State has got 50 lakhs of silver rupees. I do not think they have, but let us assume it. Did they at any time expect to carry those 50 lakhs on the backs of their camels in order to purchase things? No, they only held them in order that they could utilise them for the purposes of their people's small dealings; otherwise there would be no point in any hoards, nor have we evidence of any such hoards.

8108. Why do you say that they are only held for the purpose of small payments? Would it not be more natural to assume that when a large hoard is held it is held with the ultimate intention of making payments, including big payments?—I should very much enjoy the sight of a Native Chief coming to Calcutta with a lakh of silver rupees on the backs of camels going to Hamilton's and paying a lakh in cash or silver rupees for his purchases.

8109. Perhaps if we paint the picture in a more probable way of the rupees arriving in a motor-car it is not so unnatural?—Even with a motor-car, just consider the weight of 50,000 or a lakh of rupees.

8110. Seriously, would it not very much affect the value of a large hoard as a store of value if the coins of which that hoard is composed were to cease to be full legal tender?—I do not understand how there could be any change in the position. They do not require it for large payments specially in the Native States. They know that those large payments can be made either by cheques or in Rs. 2,000 or Rs. 3,000 currency notes. They know how to deal with banks. They have banking accounts and they can never

expect to use silver rupees for the purpose of making large payments.

8111. Finally in this connection as regards the existence of these hoards, would it surprise you to learn that competent authorities estimate the total amount in rupees held in hoards as a store of value as something between 100 and 150 crores?—Sir, I have no hesitation in saying that that estimate can never be correct. I am quite surprised to learn that the dealings of 32 crores of people in 7 lakhs of villages and over 2,000 towns are carried on by means of 150 crores of silver rupees only. The crops are valued by Mr. Findlay Shirras at over 2,000 crores of rupees per year, and without banking facilities in this country, without cheques being there, it would be very surprising indeed if all these dealings were carried on with the help of 150 crores of rupees only.

8112. One last question dealing with the ratio. In paragraph 21 you say: "It is completely within the powers of the Government to reach back to the 1s. 4d. figure; all that would be necessary is a further process of expansion." What in your opinion would be the effect of that process of expansion upon prices and the cost of living in the country?—So far as the cost of living is concerned, for some time to come they would continue on the present level; and as regards higher prices, surely the lower prices that they have maintained as a result of 1s. 6d. as I have already submitted to you, Sir, have produced a great depression in the country as a result of which the buying power of the people has been reduced and economic development cannot take place because there is so much depression. Now that depression will cease to exist as the result of this expansion.

8113. Then in the old argument, Mr. Khaitan, if that be so, why stop at 1s. 4d.? Why not, if it is so beneficial to the country to reduce it to 1s. 4d., reduce it to 1s. 2d. or a shilling?—Now just as we require 1s. 4d. in order not to do injustice to the debtors, so we cannot require 1s. 2d. in order that injustice may not be done to the creditors. People have worked on the basis of 1s. 4d. I could understand that argument if it was put to me in the year 1893 when 1s. 4d. was decided on. At that time it was desirable to fix it at 1s. 2d. but I do not want to go into all that question; it happened about 27 years ago. Since then people have always been working on the basis of 1s. 4d. and that is the proper way to do justice as between the creditor and the debtor, as between the producer and the consumer—in fact, all dealings in the country have been adjusted on that basis so that if you leave that figure either making it higher or making it lower, one class of people will be done injustice to.

8114. I understand you assume in your reply that the relations between debtor and creditor in the country are still based on the 1s. 4d. ratio?—Yes, Sir; all dealings are based on that basis.

8115. All their relations are adjusted to that basis? —Yes, Sir.

8116. Now may I ask you to be so kind as to answer any supplementary questions which any of my colleagues may have to ask?—Certainly.

8117. (*Sir Rajendranath Mookerjee.*) Is not the rise of wages in the case of labourers directly due to the rise in the price of commodities?—The rise in wages chiefly takes place when the concern in which the labourers work is making profit; if they find that the concern is making profit they demand more wages. Now you had that experience in your collieries; Sir Alexander Murray has had that experience in his jute mills; Sir Purshotamdas Thakurdas has had that experience in his cotton mills. It always happens like that. When prices go down the wages cannot be reduced; it is very difficult to reduce wages. On the other hand when prices go up there will be a certain demand, but unless they find that the concern in which they are employed is making profits the wages cannot be increased because the concern cannot afford it.

8118. You are referring to skilled labour; I mean the ordinary labourer.—I am referring to both skilled and unskilled labour.

8119. But they do not really understand whether the concern is making profit or not.—They do keep up enquiries and they are advised by people who are aware of these facts.

8120. Let me tell you of one case out of many. The labourers in our iron works threatened to strike unless they got an increase of wages. When asked about the reasons they said "the cost of the necessaries of life have gone up so high that we cannot live on the wages we are getting." On that I opened shops in which the prices were fixed for selling rice, dhal, ata, ghee, etc., everything they wanted to be sold to them at the same prices at which they used to get their supplies before. My object was to help them till prices came down, and they were all satisfied with the shops which supplied them these necessaries at fixed prices. It meant a loss to us but that loss was only for a time?—May I further enquire in which year that took place?

8121. Two or three years ago?—When there was all that confusion going on, the rise in price and the rise in wages.

8122. There was political agitation no doubt?—Yes.

8123. That is always the case, as far as my experience goes of collieries, that as long as they can meet the demand for necessaries on their wages they are satisfied, and only when they cannot meet it that they ask higher wages?—But you yourself admitted that political agitation was also going on at that time; so far as that particular case is concerned that may be explained better by political agitation than by anything else.

8124. I come to another point. Is not the rise in prices of commodities due to a fall in exchange?—I have said so. If exchange rises or falls the price of commodities would rise or fall with it, as regards those commodities which enter the world trade.

8125. Those are the exports?—Both exports and imports.

8126. About the rise in the prices of exported commodities, does not that react upon other commodities whoch are not exported?—Gradually, Sir, yes but it takes some time.

8127. Therefore is the rise of exchange beneficial to the labourer or is the fall in exchange beneficial to the labourer?—The labourer who gets his fixed wages in terms of rupees?

8128. Yes?—If his wages are fixed on a certain basis, say on the basis of 1s. 4d. then if you make the exchange 1s. 6d. the concern in which that labourer is employed loses and the labourer has not earned that increase in wages which automatically comes to him as a result of the rise in exchange. You must do justice to both. If the concern in which he is employed does not make a profit there will be no concern to employ him in. You must look to both.

8129. I am afraid they are not as logical as you are?—They are not, but the Currency Commission ought to be logical.

8130. But say a man gets 8 annas in daily wages; if he finds that he can with that 8 annas buy all the necessary commodities he is satisfied with it; but if he finds prices are going up higher and he cannot buy these necessaries for his family then he clamours for more. Is not that a natural fact?—It does not come all of a sudden. What happens is if all prices rise then the concern also makes profits. Then they get two things to advance: the concern is making profits and our expenses have gone up. They then make a demand and the concern is in a position to give them an increase in wages. Wages have to adjust themselves from time to time; there is no doubt about it; but if you put to me that all of a sudden the demand comes in at the slightest disturbance in the rates of things, for example if the price of rice to-day is 4s. and the next day 4s. 4d., I do not think

your labourers will come to you and ask for an increment in wages of one anna in the rupee.

8131. It may take 6 months?—Nor when things are cheaper would they come to you and say "We are getting things cheaper; you had better reduce our wages."

8132. That is against human nature. Even you with your high pay wouldn't do that. My point is that the labourers to-day claim higher wages when they are in difficulties, that is, when they cannot meet the necessaries of life. That is the guiding factor in the whole labour problem, at least in India?—It would be so all over the world.

8133. I would like you to explain it a little more in detail whether the rise of exchange affects them beneficially or otherwise?—They get an unearned increment simply as the result of the rise in exchange. By that I mean that if you fix wages on a basis of 1s. 4d. and if exchange thereafter goes up to 1s. 6d. they automatically get an unearned increment or an ungranted increment of 12½ per cent.

8134. (*Sir Alexander Murray.*) Mr. Khaitan, you referred to the increases of wages given in the coal trade and in the jute trade: can you recollect what were the actual increases given during the war period?—In the jute mills it was perhaps 50 per cent.

8135. And in the coal trade?—About 25 per cent.

8136. And what did you give in the cotton trade here?—Here we have got to follow the jute mills.

8137. There we will assume that in the cotton trade here you gave 50 per cent.?—Yes.

8138. If we were to tell you that over in Bombay the increase of wages was something like 130 per cent.?—Yes, I have heard that.

8139. Would you think that the people here got too little or the people in Bombay got too much?—I should think that what really happened was that before the wages were increased in Bombay the labourers in Bombay were getting correspondingly less than the jute mills here were paying. I have not compared those figures; what might have happened was that the jute mill labourers were paid better, because jute mills were making better profits. I cannot say; I have not looked into those figures and therefore I cannot give you a definite opinion.

8140. Well, when we increased the rates of wages in the jute trade and also in the cotton trade on this side of India, the increases were given with relation to the cost of living?—Yes.

8141. At the present moment you say the increase in the jute and cotton trade on the Calcutta side is about 50 per cent.; that is to say, the figure has risen from 100 to 150. Now, the cost of living here according to the statistics at our disposal in the Labour Gazette, has only gone up from 100 to 153: so that the increase of wages, and the increase in the cost of living have kept in line with each other. Taking also the index numbers of wholesale prices in India, the index shows that taking 100 as the pre-war index figure, the figure to-day is 158: so that we have the wages given in the jute and cotton mills here, the cost of living, and the wholesale prices in India all practically at the same level?—What was the index number one year ago and two years ago?

8142. The next number was 181 a year ago?—And two years ago?

8143. It was also 181 two years ago. I am asking you questions, not you me?—It is not with a view to ask any questions, but simply because you had the book in your hand and the reason why I asked that question was this: when wages were increased they were increased to a certain figure on a certain basis the cost of living compared to 1914 had perhaps gone up still higher than 50 per cent., but wages were increased by 50 per cent. only. The labourers were satisfied with that increase to the extent of 50 per cent. When the cost of living has gone down from 180 or perhaps from a still higher figure to 150, the wages have remained the same.

8144. I am dealing just now with the pre-war days; you had exchange then at 1s. 4d. To-day you have got exchange at 1s. 6d. I am taking the index number of 100 for the pre-war days which you want to go back to with exchange at 1s. 4d.; and I am taking the present position with exchange at 1s. 6d. and I am showing you that wages have gone up roughly 50 per cent., the cost of living has gone up roughly 50 per cent. and wholesale prices have gone up roughly 50 per cent. It is the same also in the United Kingdom and in the United States of America which are gold standard or gold exchange standard countries. Now, do you not think that that points to the fact that this is a suitable opportunity for stabilising exchange because given a gold standard where gold prices will fluctuate with prices in other countries, you have, as I say, all the factors that go to make an equilibrium at the present moment? You have got the United States round about 150; you have got the United Kingdom round about 150; you have got India round about 150, with wholesale prices, wages and cost of living also in keeping so far as this side of India is concerned. Do you not think that speaking as a practical man that all points to the fact that exchange at 1s. 6d. is a state of affairs that ought to be as far as possible maintained?—I cannot agree with you in that, because matters in India have not yet adjusted themselves to 1s. 6d. They have still to adjust themselves, and if this rate of 1s. 6d. is continued, you will find further depressions, and if you are under the impression that matters have adjusted themselves in India on the basis of 18d. I can only say that I regret I cannot agree with you.

8145. I am giving you figures regarding the industries with which you and I are familiar, namely, cotton on this side of India, jute and coal; and I have pointed to the fact that all these index numbers are more or less in keeping with each other, including wholesale prices in America and in the United Kingdom. Does it not therefore seem to be an appropriate time for stabilising exchange at 1s. 6d.?—I cannot agree with you, because I do not think matters have adjusted themselves on that basis yet; and if this rate of exchange is continued there will be further depressions.

8146. But what more should adjust itself as between 1914 and 1925 or 1926 than wages, wholesale prices and cost of living? What more do you want to adjust itself?—These prices have not yet adjusted themselves; the railway freight has not adjusted itself; interest has not adjusted itself.

8147. I am giving you figures to show what the wages and cost of living and wholesale prices are?—So far as the cost of living is concerned, you cannot say it has adjusted itself to the basis of 18d. yet.

8148. Why?—Because it is still in the process of transformation or whatever you may call it; it is still in that process. Nothing has adjusted itself yet on this basis.

8149. What more will have to be done to complete the adjustment?—The railway freights and interest have got to be adjusted; land revenue has got to be adjusted; all these adjustments have yet to take place.

8150. But we are dealing with the workers in mills and the cost of living?—Could you think simply of the worker alone?

8151. Excuse me, it was you that raised the point to Sir Rajendranath Mookerjee, not me: I am only dealing with a point raised by yourself?—If you will excuse me, it was Sir Rajendranath Mookerjee who put to me the question of wages: I did not raise that question. But I am proceeding more on the basis of the point of view of producers than on that of the workers alone. The workers constitute a very small percentage of the number of agriculturists and other producers in the country.

8152. Let us take the producers: which producers in particular are you thinking of?—Firstly, the agriculturist; secondly the small industrial people; thirdly, the bigger industries and fourthly the mining people.

8153. As regards the agriculturist also, the index number of wholesale prices in India is 157 and that is the level ruling in the United Kingdom and also in

the United States?—As regards this 150 that you mentioned here for the wholesale index figure, that simply represents the prices that are ruling at the present moment on the basis of the world prices in terms of gold and on the basis of the rate of exchange that prevails. But that agriculturist has got to bear the same amount of land revenue as was fixed on the 16d. basis; he has got to pay the same amount of interest in terms of rupees to his mahajan on the basis of 16d. His commodities when carried from the fields to the place of export have got to pay the same amount of railway freight as was fixed on that basis. All this he has got to pay in terms of rupees at a constant figure. If 16d. had been the rate of exchange he would have got 12½ per cent. more and the result would be that the margin left to him would have been much more than 12½ per cent. on tho basis of 16d. than at 18d. Now, it is really the agriculturists who constitute the country's strength. It is the mills and factories, big and small, and the mines that really produce wealth and sustain the country; whether they be skilled or unskilled labourers, or whether they be lawyers or doctors, or whether they carry on any profession—if you hit the producers of wealth the result is that the buying power in the country gets reduced; if they have no margin they will not have the resources from which to make the payments as a result of which either the factories can make profits or the professional people could earn money or anything can be done.

8154. But the producer gets his income from his crops. He is getting an income from the crops that is quite in keeping with the prices that have to be paid for all these other things that I have been telling you about?—He would get still more if exchange were at 16d.

8155. He is getting an increase now in food prices of 50 per cent., which is in keeping with all the other increases that we have been referring to. What more ought he to get? I am giving you actual facts; you are only surmising that if exchange were at a different rate he would be gitting different prices; but the fact remains that he is getting on a basis of 150 as against 100 in pre-war days; therefore all these things point to the fact that this is suitable opportunity for stabilising under existing conditions. You say that if exchange were to be altered on a 16d. rupee basis he will get more, but it does not necessarily follow?—It must necessarily follow; take the case of wheat which also enters into the export trade. Now, the price of wheat is fixed in the world on the basis of gold. Telegrams go from Calcutta, Bombay and Karachi into the interior and the merchant in the interior who has to pay the cultivator finds he can pay on the basis of the telegrams that he receives from Calcutta, Bombay or Karachi. Calcutta, Bombay and Karachi calculate the rupee rate on the basis of the exchange rate prevailing. If it is 1s. 4d. then he calculates at the rate of Rs. 15 to the £. If it is 18d. then he calculates at the rate of Rs. 13-5-4 to the £. If he could calculate it on the basis of 16d. then he could have paid to tho cultivator 12½ per cent. more than the cultivator now gets on the basis of 18d. I do not think there could be any case of surmise in this.

8156. There is only a very small proportion of the wheat crop exported compared to what is consumed up-country?—It may be a small percentage. Now that is a further argument, the small percentage that you mention of the export. Now, while only a small quantity is exported, the cultivator here gets less money on the whole at his credit. Because he can't get Rs. 13 on the quantity that is exported and Rs. 15 on the quantity that is consumed in the country. Throughout he gets the smaller price that is reached by reason of the higher rate of exchange prevailing.

8157. And you say the 5 per cent. or 10 per cent. of the crop that has been exported will therefore rule the price for the whole of the crop in India?—Sir, it must be so. It cannot be that 10 maunds of wheat will be sold at Rs. 13 and 9 maunds at Rs. 15.

8158. But a great deal of the wheat is consumed without being bought and sold, so to speak. Therefore, the great majority of the agriculturists in this country simply grow sufficient for their own requirements and there is very little surplus for sale?—Sir, have you got any evidence of that? On the other hand, my experience is that oftentimes the cultivators grow certain things and they consume other things. For example, the cultivator that grows cotton does not eat cotton; he sells his cotton.

8159. It is no use going to cotton; we were discussing wheat. We won't pursue that. One other thing. I see in your statement, here, in paragraph 6 you say: "In dealing with and talking of, and entering into obligations in terms of rupee in the pre-war period, people did so as if they were dealing with, talking of and entering into obligations in terms of 7·5334 grains of fine gold." Then in paragraph 8 you make the statement: "That gold is really the standard of value, that rupee is really a token coin intrinsically only $\frac{11}{16}$ worth of its currency value, that it is, in effect, a subsidiary coin, are hardly realised by the public." You go on to say: "It is little surprising, therefore, that public are not often alive to the fact that the Indian currency system rests ultimately on a gold basis." On the one hand you tell us that everybody, including ryots and cultivators, who enter into contracts do so dealing with, talking of and entering into their obligations on that basis. Then in this other part you tell us that the public do not realise that they are on a gold basis. Now, speaking from your own knowledge, is it not the case that all the cultivators you know up-country deal with the rupee as a rupee, not because it has a gold basis or any other basis?—Sir, may I explain that. This sentence is really not meant to be inconsistent with the subsequent sentence that you have just cited. What we meant here, if you will allow me to read it out again, was: "Prior to the war the rupee was valued at 7·5334 grains of fine gold (i.e., 1s. 4d. gold)." Then we explain: "In dealing with, and talking of, and entering into obligations in terms of rupee in the pre-war period, people did so as if they were dealing with, talking of, and entering into obligations in terms of 7·5334 grains of fine gold." What we meant is that when people deal in terms of rupees they deal in so many units of 7·5334 grains of fine gold and we have taken care to state afterwards that this factor was really not understood by the public but that for the scientist that was the way in which they conducted themselves.

8160. Quite true. But of course the agriculturists of whom you speak are not scientists. They deal with rupees and notes for the value which those rupees and notes realise in everyday transactions, and it is immaterial to them what the standard of value is so far as gold is concerned?—That is why, as I have said in answer to the Chairman, that is why we say that the gold coin is very necessary. People deal in rupees not knowing what it really is. What they find is that, although it contains alloy, it really can buy a larger quantity of silver than the weight of the coin itself.

8161. Quite true, but what I mean is that in the past the agriculturists and other people in India have been dealing in the rupee on its own merit as the standard coin in India?—And without understanding it.

8162. (*Mr. Preston.*) Mr. Khaitan, in paragraph 11, you state: "The Committee of the Chamber, therefore, suggest that as early as possible a gold standard with gold currency be unreservedly introduced in India." Then in paragraph 23, you state: "The Committee do not consider that the drain on gold even in the initial stage shall be very heavy." Paragraph 24, you say: "It is painful for the Committee to observe that an endeavour should now be made, evidently from interested quarters, to establish that India requires an

appalling amount of gold for the adoption of an effective gold standard." Now, suppose we leave out the "very" in your wording in paragraph 23, your Chamber then admit that the demand for gold in order to establish the gold currency would be heavy?—We don't think, Sir, that the demand for gold from the rest of the world will be heavy.

8163. Well you say that it will not be very heavy. I say we will leave out the word "very" and call it heavy?—We might make it "heavy."

8164. Now, let us assume for the moment that it was seriously considered to adopt the gold standard for India, and you say here with a gold circulation. And then come down now to paragraph 24 in which you say: "Preposterous as the proposition is, the Committee feel it as an outrage on the Indian nationalist sentiment to ask it to submit to a foreign loan." Now, if in the bringing into being of this gold standard which you desire it was found necessary owing to the heavy demand which you state will result to obtain assistance either in England or America by means of credit, would your Association object to any such measures being taken for that purpose?—Sir, our Chamber is convinced that there would not be any necessity for a foreign loan in order to adopt a gold standard and a gold currency.

8164A. Yes, but wait. You say that the demands would be heavy?—Would *not* be heavy.

8165. Not very heavy. I have asked you to omit the word "very" and therefore it would be heavy?—It would not be heavy.

8166. Very well, then. Assuming that it was found to be heavy and that recourse to credits was necessary, would your Association object to steps being taken to obtain these credits for the purpose which you so longingly desire?—Sir, we are convinced that these credits will not be required to adopt the gold standard and gold currency.

8167. But in the event of their being found necessary, would you object to such steps being taken?—We don't consider it to be necessary.

8168. I will go to another point. You have told the Chairman that lakhs of villages and 2,000 towns are populated chiefly by agriculturists forming about 70 per cent. of the population, and whose present position is one bordering on poverty—you also say that their daily transactions absolutely necessitate that they shall have rupees for the whole of their daily transactions—is that correct?—Yes.

8169. They don't want the gold there for their daily transactions. The transactions are so small that they don't run into gold?—Quite so.

8170. Then go back to paragraph 23, and you say: "What should the public really demand gold for in exchange of rupees?" Therefore they won't come in, owing to the gold standard being introduced and our having a certain amount of gold reserve to meet what we anticipate might be heavy demands for gold, they won't come to exchange their rupees for gold in your opinion?—Yes.

8171. Then you say; it was in response to a question the Chairman addressed to you, and your answer was that in so far as your Chamber was concerned they were firmly of opinion that it was not desirable to force gold on the country but merely to educate the people in the fact?—Sir, which paragraph?

8172. This was in the oral evidence in reply to the Chairman's question. I was merely reading a note which I took of what you said in answer to the Chairman. You said that in the opinion of your Chamber it was not desirable to force gold on the country. Then, if that is the case, of what value is it to have the gold currency at all? Who is going to benefit by such currency?—Sir, these are two different questions altogether. When I said don't force gold on the country I was referring to the fact that, unless gold can be tendered to the Government in exchange for Indian currency, the only result of it is that gold is forced upon the country in the form of bullion. That is not desirable. And so far as gold coins are concerned, if the people of the country see the gold coin to a certain extent circulating in the country, they will know that these silver rupees which are over-valued can always be converted into gold. That means that the people will have confidence in the currency of the country, and they will understand what it really means. At present that is not so.

8173. But with these 70 per cent. of India's population hidden away in these lakhs and lakhs of villages and towns, who only want rupees, who don't want gold or a gold currency, of what use would it be to them?—If he saw that he could get a gold coin in return at any time, he would have confidence in the currency.

8174. But would he know of the existence of gold coin, and if he did, has he got any surplus silver rupees to put into a gold coin, and if he kept the gold coin in these villages would it be of any value to him to go into the bazar to make his purchases with?—No, Sir. He would not require the gold coin for the purposes you have mentioned. But it is one thing to have confidence and another thing to have use for the coin itself. Now, surely when he goes into the bigger towns he will see some gold coin circulating. People talk among themselves, they talk about rupees, they talk about gold coins, and as soon as Government will declare that a certain number of rupees have the right of being converted into a certain form of gold coin, they will immediately come to know it. By immediately, I don't mean to say that it will be communicated by wireless, but the information will filter down to them in a short space of time.

8175. Well, if he does not want the gold coin for the purposes of circulation for everyday use in the bazar, do you not think that if a gold coin came in his way and he was able with a surplus rupee to acquire that gold coin, that he would hoard that gold coin?—The question of hoarding does not arise. He will require the rupees that he has got for his small purchases. There would be no occasion for hoarding gold coins in that manner so far as the agriculturist is concerned. Now about the middle classes, instead of making some ornaments they might hoard some gold coins, but that would simply be converting one sort of gold into another which would not cause a heavier drain. Some coins will pass into circulation as currency, and if a larger number of gold coins will be issued, they will always pass into circulation as currency.

8176. Let me put it to you in this way that in so far as 70 per cent. of the agricultural population is concerned, a gold currency would be of little or no value to them?—It would be of value to them in creating confidence, in their understanding what the token rupee is. At present when they see the nickel one anna bit, they understand that 16 of those coins will bring to them a silver rupee. Similarly they will understand that fifteen of these silver rupees could be converted into a gold coin if they had 15 silver rupees to convert.

8177. Now earlier in the morning you stated that the people of this country were clamouring for a gold currency, but that their demands were not satisfied. How do you reconcile that statement with this?—I do not see any inconsistency between the two.

8178. If they get a gold currency in the majority of cases that would never enable them to possess the gold coin, and that if they did, they would never be able to use it on account of its being of too high value for their local purposes. When it is said that the people want a certain thing, it does not mean that everyone of the 32 crores of people residing in the country ask for it or has formulated his opinion on it, and is ready to give his evidence before this Commission. The thinking portion of the population really represent the views of those with whom they come in contact. Now the generality of the people of whom you are thinking cannot understand what that coin, the rupee, is. Now gold coins were in circulation as they were from time to time, and they saw gold coins; they found that the gold coins were

again vanishing from circulation; now they say that the Government should again circulate the gold coin. They really talk about it in the bazars whenever conversation turns upon the question of currency; they say, "there were gold coins in circulation; the Government has withdrawn them; they should not do so; a gold coin is of full value and buys its own quantity of gold; we have the silver coin which does not."—They talk like this in the bazars.

8179. Some years ago Government in response to a certain amount of pressure from outside decided to put into internal circulation nearly $4\frac{1}{2}$ millions of gold; what became of that?—Afterwards, after the action of the Government those gold coins became useless as circulating media.

8180. Why did they become useless as circulating media?—They became useless because of the fluctuating value of the rupee.

8181. Where did they go?—They became useless because no consistent policy was followed. If you do not proceed upon a consistent policy, then the result would be what is only natural.

8182. I refer to another subject in paragraph 19, where you say, "Remittance operations should be confined to actual requirements, due advantage being taken of slack seasons, favourable ready or forward rates, etc. By so doing, trade will also be materially helped"; that is, we may take it that the opinion of your Chamber is that so far as Council Bills are concerned, the sales of Council Bills should be actually restricted to Government's home requirements only, and no sales should be made above and beyond that, is that the opinion of your Chamber?—Yes, the currency operations should be kept absolutely separate.

8183. No, no. The question is, in the opinion of your Chamber do they consider that the Government shall only sell for their actual requirements and nothing beyond? Have they expressed any opinion as to whether these sales should be by public tender, or the method should be proceeded with as now of the Imperial Bank, which would be the Central Bank later on, purchasing sterling in this country?—If you refer to paragraph 19, "The remittance operations of the Government of India may be managed by the Imperial Bank, but they should not be confounded or complicated with the Currency system, as was unfortunately done by Government." The next sentence is, "Remittance operations should be confined to actual requirements, due advantage being taken of slack seasons, favourable ready or forward rates, etc. By so doing, trade will also be materially helped."

8184. Do your Chamber consider that these sales should be done by public tender or that the system at present in vogue of the Imperial Bank buying sterling should be continued?—We have not considered the point at length.

8185. One more point in which you deal with the transfer of the currency note system to the Central Bank: have your Chamber considered whether it should be the Government notes which will be transferred and the notes continue to be issued as at present, or whether in the event of a new Central Bank being established, the Central Bank notes should be issued?—Our idea was that in subsequent years all notes should be gold notes, and they should be bank notes because the management would be handed over to the Imperial Bank.

8186. You would not continue the notes as actual Government notes?—That does not seem to be necessary, but we have really not considered that at any great length.

8187. (*Professor Coyajee.*) Mr. Khaitan, if you please, we shall consider the peculiarities of the position of India as regards the introduction and working of a gold currency; in the first place it is easier for India to introduce a gold currency on account of our usually favourable balances of trade; is that not so?—Yes.

8188. On the other hand, it has been suggested that the gold standard might easily become unpopular with the poorer classes when they see the value of their silver ornaments reduced as a consequence. The idea is that as India withdraws from the market for silver and that market is a very sensitive one, the price of silver will fall largely, and with that, the price of silver ornaments, which are the savings of the poor in the past, that price will also be reduced substantially. Will not that make the gold standard unpopular among the poorer classes?—You are assuming three things, firstly, that the adoption of the gold standard would reduce the number of rupees in circulation.

8189. I am asking only about ornaments?—You mean the fall in the price of silver simply through the declaration of Government that silver will not be purchased? Now so far as that is concerned, if you go up to 1s. 4d. then the price of silver will be increased by $12\frac{1}{2}$ per cent. by reason of the going back to 1s. 4d., and that follows as a matter of course. That is not a question of more rupees, it is as a result of the exchange. If silver is valued to-day at Rs. 75 on the basis of 1s. 6d., then immediately you go up to 1s. 4d., nothing else intervening, the price of silver would go up $12\frac{1}{2}$ per cent., that is by roughly speaking Rs. 9-8, that is it would become Rs. 84-8. Therefore roughly 1s. 4d. would give them that advantage, and if as a result of the declaration of Government not to have to buy silver as a result of the adoption of the gold standard, that might affect the price a little, and it is quite possible that——

8189A. You mean there is compensation?—Yes. I may say that if there is any apprehension on that score, you could help the cultivators by imposing a duty of 4d. per ounce of silver. It should be met in that way, not by depriving the country of a gold standard with a gold currency.

8190. Suppose rupees have to be sold, the position would be more difficult?—Well, firstly, our Chamber does not think that it will be necessary to melt silver rupees and sell the bullion content, as we have tried to explain in our memorandum, but if it becomes necessary—we do not think it would be necessary—the argument would be the same as in the case of the Government declaration that no further silver will be purchased. Now the country itself may require some of the silver Government has to sell.

8191. Then one observation you made to the President was to the effect that it is impossible that there should be a rush to present notes when a gold currency is introduced and to claim gold; but surely you will remember that in 1914 and again in 1917 there were big rushes in which notes were presented and the mints had to work night and day in order to coin silver?—You do not mean 1914, you mean 1917-18 when the import of gold and silver was stopped. Well there was all that confusion during the war, and I hope none of you will mind if I say that I think there was, wrongly, a great fear in the minds of the people that England may lose in the war, and all these fears did spread in the country. I have to speak about it with a great deal of hesitation, but there were those difficulties at that time.

8192. (*Sir Norcot Warren.*) In paragraph 20, Mr. Khaitan, your Committee refer to the issue of emergency currency, and they say that "there is a complaint that Indians did not in the past get a sufficient benefit from the issue of emergency currency." What exactly is meant by that?—Sir, about this sentence I regret that I won't be able to enlighten you further except to tell you that when the Committee considered the preparation of the memo. some members of the Committee were very strong on this point. They insisted on this sentence, and if you want from me details, I won't be able to give them to you.

8193. (*Chairman.*) I think it is unfortunate that we should not have this amplified, Mr. Khaitan, as naturally it provokes comment?—That is the position about it. Members of the Committee have felt like that. Personally speaking, I have not got that complaint, but some members of the Committee were very very insistent. It refers to private affairs which we do not want to disclose.

8194. (*Sir Norcot Warren.*) But when emergency currency is issued, do you mean to say that part of this emergency currency is issued by the Bank to some favoured customers?—In answering this question on the view of the Committee, I must tell you that I do not associate myself with that view. Now, the view of the Committee was that when emergency currency was issued the Imperial Bank got the money and the Imperial Bank helped the bigger industries under European control or the exchange banks which assisted European merchants or traders. So far as I am concerned, I have no complaint against the Imperial Bank.

8195. It is a very serious complaint to make against the Bank that they are holding emergency currency for a favoured few of their customers?—It is not really a complaint against the Imperial Bank only. What they say is this: Firstly, emergency currency is not issued until the Bank rate has reached 6 per cent. Now by that time stringency in the money conditions has already taken place, and movements of the crops have already begun. That you know perfectly well. Now if emergency currency had been issued earlier, and if that could go to help the Indian traders, that would be of some benefit. But if you issue it at a later stage, at about the time when the commodities go to the exporters or the industrialists, then the middlemen between the exporter or the industrialist on the one hand and the agriculturist on the other, will find it too late to get the benefit. Now that is a very general point which affects the conditions of the country as a whole. Now so far as that is concerned, I can say that much. In fact, we have already said so in a later sentence. But whether there are any individual cases or not, that is a different matter.

8196. (*Chairman.*) I think we can only note that on clause 6, which is, of course, a criticism which must necessarily attract very much attention, that you, Mr. Khaitan, as representing the Chamber and prepared to explain the views of the Chamber, do not associate yourself with the criticism, and are, unfortunately, unable to give us the foundation for the statement?—Except in that general way that I have said in answer to Sir Norcot Warren.

8197. (*Sir Norcot Warren.*) But I do not think that is an explanation.

8198. (*Chairman.*) The question which occurs to me is, does that serve to distinguish between Europeans and Indians?—The distinction works out between Europeans and Indians in that way generally speaking; but that may not be a sufficient answer, and I personally do not associate myself with it. That is the view of the Committee.

8199. (*Sir Norcot Warren.*) Would your Committee let me have an explanation?—I will ask the Committee about it.

8200. (*Chairman.*) Do you desire that the Indian Chamber of Commerce should be asked to give us any evidence that they have in support of this complaint?

8201. (*Sir Norcot Warren.*) Yes, that is what I want, Sir.

8202. (*Chairman.*) Perhaps Mr. Khaitan will bring that to the notice of the Chamber and make known to them the wish of the Commission in this respect.*

8203. (*Sir Purshotamdas Thakurdas.*) I see that you have not put in any personal memorandum of our views, and I therefore propose to ask you about something which you appear to have written to the press here. The witness who is to appear this afternoon says in his memorandum: † "That is why we find at least one knowing currency expert in this country, Mr. D. P. Khaitan, of Calcutta, recommending the issue of gold mohurs with a smaller gold content than what their purchasing power may procure. Why there should be such a metallic medium at all for currency purposes has not, however, been explained." Could you tell us what this reference is to and whether you could enlighten us regarding this scheme of yours?—Perhaps it refers to an interview which I gave to the representative of the Statesman. In that the scheme was quite different and that was my personal view about a consumption tax on gold. Now after that interview appeared, I have interviewed a large number of my friends, and they have very much disliked the idea of the consumption tax on gold, and that being so, I have dropped that scheme altogether. It is not desirable to go on with it when it is disliked by the Indians. Does it refer to that, Sir.

8204. He does not say that. I read it there and I presume it must refer to that. Then I take it that you have yourself rejected this idea of a token gold coin?—That token gold coin was a necessary concomitant of a consumption tax on gold. As I have dropped the consumption tax, the debasement of the gold coin automatically goes.

8205. As regards the want of confidence created in minds of the people, as you yourself said, the same arguments advanced against the token rupee apply against the token gold coin?—To a great extent, yes.

8206. Absolutely to the same extent?—Yes.

8207. Now regarding long term contracts, you divided them into two parts in reply to the Chairman; one was the daily contracts and the other, contracts going on in the country for a long period. I understood that you thought that the indebtedness of the ryot formed the largest bulk of the long term contracts?—Not simply the indebtedness; but also the land revenue and other things.

8208. Supposing you are considering only the debt part, then the indebtedness of the ryot would be the largest?—Yes.

8209. Do you think this form of contract or debt has any possible cover with which the cultivator could protect himself against a rise in the rupee?—No.

8210. You said something in reply to the Chairman about the coal freights. I wonder if I understood you correct. Has there been any reduction in the coal freights at all during the last 2 or 3 years?—No, when did I say?

8211. I think the Chairman said that we have it in evidence that the coal freights had gone down and I want to know whether you confirm it. We have it in evidence that they have gone down. Have they really gone down?—No, not at all.

8212. Are you very intimate with the coal trade?—I have to buy coal and take it to Gwalior and Delhi and there has been no reduction at all in the coal freight.

8213. At least there is no reduction in the freight between Gwalior and Delhi?—No. I am just now told that there is a small reduction in the Great Indian Peninsula Railway. But there is no reduction of freight to Calcutta. The coal that we buy for consumption in the mills, that has to pay the same railway freight.

8214. Coal freight rates to inland places has had no reduction?—No.

8215. You said that your committee expressed the opinion in very strong terms that there are no hoards of rupees. It has been reported to us by witnesses that they know of rupees from villages coming stained with earth. Where would they come from, if not from hoards, Mr. Khaitan?—What happens is this. I am talking from actual experience. I had been to the villages in my zamindari. The small agriculturist who harvests the crop carries it to the nearest market not a very big market like the Calcutta or Bombay market of which you may be thinking, but a small market, he sells it there and takes rupees in return for that. When he takes those rupees home he has to put them somewhere for payment of land revenue, interest to the mahajan and so on. He is so poor that he cannot have even a box to keep it. He keeps it either under the earth or in the mud wall of

* A communication was subsequently received from the Secretary of the Chamber, stating that the matter had been brought before their committee, and that "it was regretted that the specific facts asked for by the Commission could not possibly be furnished, though such failure on the part of the Chamber should not be construed as tantamount to a withdrawal by the committee of the remarks in question."

† Appendix No. 40.

the hut in which he lives. Now by the process of rain or moisture or dew, naturally the rupees catch some earth and when they come out into the market, the people do not take the trouble of washing out the mud and on account of the perspiration perhaps it sticks better. But certainly that cannot be evidence of hoarding. It is simply the manner in which they keep the rupees, the manner in which they handle them.

8216. It practically amounts to this: That instead of putting it in a box, the cultivator puts the rupee in the mud wall and mud sticks to the rupee but that does not necessarily mean that the rupee has been in the hoard for a long time or has been hoarded at all?—Not at all, Sir.

8217. Now supposing it was thought desirable not to have gold currency but to have gold in the Treasury for export purposes and gold notes were issued promising one or two mohurs or sovereigns as the case may be. What effect do you think such inconvertible gold paper will have on the masses?—It will not create confidence. People want to see gold coins. They must handle gold coins.

8218. And I want to put to you this particularly. Supposing that gold note was paid at a market centre to an agriculturist. Would the agriculturist have to pay discount in cashing that note which is inconvertible?—You mean inconvertible notes?

8219. Yes, inconvertible gold notes?—I thought you meant convertible gold notes.

8220. Convertible gold notes would mean gold coins?—Inconvertible gold notes would be useless. By useless I mean they would not render service and they will carry discount in the market.

8221. It is most undesirable?—Yes; it is very undesirable.

8222. Do I understand you to say that in jute trade wages have gone up by 50 per cent. since 1914?—Gone up by 50 per cent.

8223. And in the coal mines by 25 per cent.?—Yes.

8224. Are you sure about that figure?—I am not quite sure about it.

8225. (*Sir Reginald Mant.*) Mr. Khaitan, can you tell us what parts of India your Chamher mainly represent or are your memhers mostly of Bengal?—They are all merchants carrying on business in Bengal.

8226. They are all from Bengal?—Yes.

8227. Why do you call yourselves an Indian Chamber when it really only represents Bengal?—It means a Chamber of Indian merchants.

8228. Yes, but you do not represent the whole of India?—Well it happens like this. Some members have got branches and businesses in several parts of India and to that extent the members of our Chamber have knowledge of the conditions existing in almost every part of India.

8229. Now you said in reply to Sir Purshotamdas that you had abandoned the idea of a debased gold coin. I notice in paragraph 15 of your memorandum you recommend a mohur of 90 grains weight containing 7·5334 grains of fine gold.—It ought to be 75·334. May I have the liberty to correct it?

8230. (*Chairman.*) Certainly.

8231. (*Sir Reginald Mant.*) Yes that is a misprint. Then your coin has a larger proportion of alloy than the sovereign?—No, Sir, that gold coin would pass at the value of 75·334 grains of fine gold and not at the value of 90 grains of gold. The alloy is useless for valuing purposes; it is only to make the coin half a tola in weight.

8232. That is what I wanted to clear up. I wanted to ask why you propose a coin of a less fineness than the sovereign?—That is only to make it equal to half a tola to make it convenient.

8233. But why is it convenient to have half a tola?—Well that is only a matter of detail. If you do not want to have half a tola, don't have it. What we want is 75·334 grains of fine gold equal to 10 rupees. As to the quantity of alloy if you do not want it you need not have it.

8234. That is really immaterial?—Yes.

8235. In paragraph 16 you say " Apprehensions are often expressed that if gold coins are allowed to circulate in this country there will be a great scramble for gold in the world market, commodity prices would fall and trade and industries in the world would suffer. The Committee cannot in this connection conceal their feelings of resentment that such a question should be raised in the case of India alone." I presume you are acquainted with the recommendations of the Genoa Conference?—Yes, we have referred to it, you will find that in paragraph 16.

8236. Then you are aware that the Genoa Conference recommended economising gold and discouraging the use of gold as currency in other countries of the world, are you not?—That is simply a recommendation.

8237. I am coming to that; just let us take one step at a time. You are aware that that was the conclusion of the Genoa Conference?—But it has not been adopted.

8238. Quite so but you do agree that that was the recommendation of the Genoa Conference?—Yes.

8239. Then why does your Chamber express resentment and suggest that such a question should be raised in the case of India alone? When the Genoa Conference make a general recommendation that it should be adopted in other countries, why do you suggest that the question has only been raised in the case of India?—We have already said in the memorandum what constitutes a reply to what you are asking; you will find it in paragraph 16: " When several countries come together, including England and the United States of America, to confer about the adoption of the gold exchange standard by them all India might also be invited to the conference as a separate unit to take part in their deliberations, and with the experience of a pure currency system obtained in the meantime will be able to give the benefit of her advice and to adopt such joint action for the benefit of the world as may then appear feasible; but until that time arrives there can be no justification in depriving this country merely because of her political weakness from adopting a sound system of currency."

8240. That does not answer my question?—I thought it did.

8241. I pointed out to you that the question was raised as a general one and you suggest here and you express resentment that it was only raised in the case of India?—If it is raised as a general question, first let us have a gold standard and gold currency.

8242. One minute, you have already agreed that it was raised as a general question?—That is of a quite different nature. The Genoa Conference's recommendation is of a different nature from the question you are examining here at present. In our opinion you ought to come to the conclusion that a gold standard and gold currency is good for the sake of India. Now if that is adopted and then if several countries meet together and some joint decisions are made for the benefit of the world, India will not lag behind. But if India alone is told that you must not adopt the gold standard and gold currency while all other countries will be at liberty to do so, that is the reason for our resentment.

8243. Well, now we come to a point further down where you say " It is said that if the Geona Conference preferred a form of gold exchange standard to the gold standard it was because deflation was considered too risky for most countries." What do you mean by that?—What we mean is take the case of France. There the pre-war parity of 25 has long been exceeded and it is in the neighbourhood of 120 or 130. Now if they have to come back to the pre-war parity of 25, then they have got to deflate their currency in order to come back to the pre-war parity.

8244. But let us leave out the pre-war parity. We are considering the demand for gold and the amount

of gold required for a gold currency?—If you will remember, Sir, that was one of the factors which was considered by the Genoa Conference, namely, the currency of several countries having left the pre-war parity and as to what should be done in order that they may attain normal conditions without a disturbance of internal conditions. Now if they had to attain pre-war parity again that would have required a large amount of deflation.

8245. I have asked you to leave out pre-war parity. The point I want to get at is how deflation would be required to introduce a gold currency. It is perfectly possible for a country to stabilise at the existing rate of exchange?—By adopting a new gold coin, yes, and by fixing the new value of paper currency in terms of a gold coin, as Germany has done by the Reichsmark.

8246. Yes, Germany has done it. So the question of deflation does not really come into the picture in considering the amount of gold required?—Yes, Sir; you have either to deflate or devaluate; one of those two things you have to do. You cannot do otherwise; you have to choose between the two.

8247. But the point I want to put to you is that the Genoa Conference preferred a gold exchange standard solely for the purpose of economising the use of gold and not as you suggest here in order to avoid deflation?—So far as Indian conditions are concerned we have had such a bitter experience of the gold exchange standard, whether it was recognised as such or not, whether it was a perfect system or not, we have had a very bitter experience of the gold exchange standard; our standard of value has been interfered with from time to time, and if we want to create confidence in the country in the currency system you should first adopt the pure system. After that is done and after confidence is gained, then will be the time to consider whether the use of gold can be economised or not. But if you try in the very beginning simply to continue the present system, I do not think that will be a wise thing.

8248. (*Chairman.*) We are very much obliged to you for your Memorandum and for your assistance to-day.

(*The witness withdrew.*)

The Commission assembled after lunch, Sir Reginald Mant in the Chair.

Mr. A. Ramaiya, called and examined.

8249. (*Chairman.*) Mr. Ramaiya, you are a Fellow of the Royal Economic Society?—Yes.

8250. You are a practising vakil?—Yes, in Madura in the Madras Presidency.

8251. And you are also a student of currency questions?—Yes.

8252. And the author of a book, "A National System of Taxation"?—Yes.

8253. You have been studying this question for a long time?—Ever since I took my degree in Honours in the Madras University I have been studying, not persistently but occasionally.

8254. You have given us a very full memorandum,* and I shall therefore only ask you a few questions to elucidate various points in it. You begin by sketching the past history of what you call the rupee standard and come to the conclusion that it has broken down. In referring to the 16d. rupee in paragraph 1 of your memorandum, you say that this ratio could be maintained only during times of favourable balances of trade. It was in force for a good many years, was it not?—Yes; but it was in force not on account of any merits in itself, but because the country generally had a favourable balance of trade; that is my view. The success was due not to the standard itself, but because the country generally had a favourable balance of trade during almost all those years.

8255. That is a normal feature of India's trade, is it not?—That is the normal feature of India's trade.

8256. You say that it could be maintained only during those times?—I judge it from the failure it had experienced in recent years in the post-war period.

8257. You refer to the period 1907-08, do you not? You say that the pre-war standard of 1s. 4d. could not be maintained during that time?—I was led into that impression by an article by Mr. Khaitan in the "Forward"; but I find that it is not quite accurate; it is not my own view; I verified the statement yesterday and found it not to be quite correct.

8258. Then you are referring to the post-war period when you say that the 1s. 4d. rate broke down?—Yes.

8259. That was on account of the rise in price of silver, was it not?—Yes.

8260. Then you say "again during and after the war the Government has also miserably failed to maintain the exchange with the help of its gold standard reserve." To what are you referring there?—Maintaining exchange level at 1s. 4d. It could not maintain it at the pre-war ratio.

8261. You mean that it could not keep it down to that level or do you mean that it could not keep it up to it?—Keep it down to that.

8262. With the help of its gold standard reserve? I do not quite see how the gold standard reserve could be utilised for keeping it down. What exactly do you mean by the reference to the gold standard reserve?—It could not issue internal currency during that time. A favourable balance could not be met by the Government's policy to issue silver rupees. The Government could not issue silver rupees on account of the rise in price of silver.

8263. What do you mean by the reference there to the gold standard reserve?—That portion of the reserve which is kept in India for issuing silver. The Government has in the normal period, I understand, to issue silver rupees in India for those persons to whom money is due from foreign countries. That the Government could not issue.

8264. But the gold standard reserve was never intended as a reserve for holding silver or providing rupees. The gold standard reserve was intended to prevent a fall in the value of the rupee. It was intended to provide gold resources——?—For discharging foreign debts.

8265. Yes. The silver holding to which you refer was, I think, rather a temporary accident when the gold standard reserve had been utilised for contracting the currency and the rupees were placed temporarily in the gold standard reserve. Is that the period to which you are referring there?—I think it is more likely that this will refer to the period from 1919 to 1922.

8266. There were no silver rupees in the gold standard reserve then, were there?—The next sentence will show that what I meant was that "the system itself collapsed when silver prices ran too high to make it profitable for Government to issue further coinage with the result that the main spring of the reserve broke down hopelessly." What I meant in the previous sentence is explained in this next sentence.

8267. What do you mean by the main spring of the reserve?—The capacity of Government to issue silver rupees in India, and also the capacity of Government to provide foreign currency. It had neither this nor the other capacity.

8268. But the rise in the price of silver prevented it from providing internal currency?—Yes.

* Appendix No. 40.

8269. And the gold standard reserve was not intended to provide for that, was it?—The gold standard reserve was not intended for it. That is the necessary consequence of it. The gold standard reserve is associated with it—or rather the associated purpose which the Government had was to issue silver rupees in India in times of favourable balances. On account of the high exchange, Government could not provide foreign currency in other countries nor could it issue silver rupees in times of favourable balances in India.

8270. You go on to describe the Indian currency as an essentially managed currency?—Yes, I do.

8271. And you say that "two things are necessary for the successful working of the currency system of the country, one is that the value of its monetary standard should remain stable inside the country and maintain stability of internal prices"?—Yes.

8272. I understand from the subsequent arguments in your memorandum that you propose to maintain stability of internal prices by means of a gold standard securing a stable exchange?—Yes, by a stable exchange and also with the help of the bank rate.

8273. With the help of the bank rate. We will come to that presently. Now about the middle of paragraph 3 you say: "From the point of view of the nation as a whole a high or rising exchange has a more injurious consequence for her industries and trade than a low or falling exchange"?—Yes.

8274. But at the beginning of the next paragraph you say: "It is true that every variation in the exchanges has only a temporary and transitory effect, and ultimately leads to readjustment by setting the necessary forces in motion." So, when you talk about a high exchange I think you must mean a higher exchange?—I do hold the opinion that it has only a temporary effect.

8275. And when you are referring to the ill effects of a high exchange there you mean merely a rising exchange?—Yes, a rising exchange and a high exchange if it continues only for a temporary period.

8276. If it has only a temporary effect. But you say that the purchasing power parity never gets restored to its original position of equilibrium?—Yes. It does not exactly come to the original position. Various economic forces act and react upon one another and the new position is not exactly the same as previously. Some changes on account of the play of economic forces are brought about so that the exact position which existed previously is not restored.

8277. Then you go on to say that India has now neither a gold rupee nor a silver rupee?—Yes.

8278. The position is, is it not, very similar to that of various other countries whose exchanges broke down during the war and who had temporarily to abandon their pre-war standards of exchange. India is at present in much the same position?—Yes, in much the same position. Exactly so.

8279. Now I come to your proposals for remedying the present defects. You consider that the time is now ripe and opportune for the adoption of a gold standard in India?—Yes, I do.

8280. And you say that the problem as to whether we should stabilise our currency with sterling or with gold has disappeared?—Almost certainly disappeared.

8281. You assume that sterling will remain permanently linked to gold?—I think so, from the Gold Standard Act that has been passed recently.

8282. And you say that in your view world conditions have now become stabilised enough through the return of a good many countries to the gold standard for us not to expect any more such rapid and violent fluctuations in the exchanges requiring a quick reaction for the maintenance of the equilibrium as we experienced before. You don't think there is any longer any danger of fluctuations in gold prices?—Fluctuations in gold prices may occur and will depend upon the policy of the United States. But what I mean there is on account of the post-war effects having become fairly stabilised in all countries and each country being anxious to return to a gold standard and some having already returned to the gold standard, the world condition has become fairly stabilised.

8283. In fact, you think that the more countries that return to the gold standard, the greater the general stability. Is that your view?—That is what I think.

8284. Then in paragraph 8 (iii), you say: "If indeed India had had a gold standard, the depression of 1920-22 would probably not have happened at all." The depression of 1920-22 was due, was it not, to a very large and sudden fall in world prices. How would that have been prevented or mitigated if India has possessed a true gold standard?—So far as the countries with which India has been dealing were concerned, they had a gold standard at the time. I mean Great Britain, the United States and Japan. And if India also had had a gold standard, then the adjustment between these would have been easier.

8285. The adjustment. But what about the depression in India? You would have had a very violent fall in prices in India, would you not?—The fall in India would not have been so violent.

8286. Why not?—The Indian prices had been more stable previously than in other countries. So the fall in prices in India would not have been as great as in other countries.

8287. But was not the fall of prices in India mitigated by the fall in exchange. If you had had a gold standard and maintained it, the fall in exchange would not have occurred, but surely there would have been a greater fall in prices and still greater stringency in the country?—A greater fall only in certain prices, those prices which enter into the process of international trade. There are certain prices which do not enter into international trade at all; such prices would not be affected.

8288. They would not be affected at all?—They would not be affected to an appreciable extent.

8289. Do you hold the view, which I think is commonly accepted, that articles which enter into foreign trade affect the price of other articles?—They do not affect them so much. It takes some time for affecting them, but there would be an appreciable effect only upon prices which enter into international trade. The effect will not be so great on other articles as it would be on articles which enter into international trade.

8290. But that does not affect the argument here, does it, that exchange took a part of the shock and mitigated the fall in prices? If you had a gold standard, there would have been a more severe fall in prices and a more severe stringency?—There would not have been a great fall in prices because the imports would have diminished during that period. If there was a greater fall in Indian prices, there would not have been so large imports as there actually were. It would have simply had the effect of minimising the quantity imported.

8291. You say that the adoption of a gold standard does not mean also the keeping of gold coins in active circulation, and you controvert the view which has been put to us by a good many witnesses that in order for India to arrive at the ideal system of currency, namely, an inconvertible paper currency backed by gold, that it is necessary for her to pass through the intermediate stage of a gold currency. You do not hold that view?—I do not hold that view.

8292. Could you enlarge your view at all there? We have been told that the people will never give up hoarding until they are satisfied that they can get gold coins if they want them?—My main reason against the introduction of gold coins into circulation in this or any other country is that it is not necessary. A metallic currency is absolutely unnecessary anywhere and it is especially unnecessary and also inconvenient in this country for this reason that gold coins are apt to be melted by people in the rural parts who have now no easy access to gold in the form of with the result that there would be a de-

flation of currency, that there would be a fall in prices if people absorb the gold coins as is being usually done in the rural parts. What I mean is that in rural India gold is not available for social purposes except in the shape of coins. If gold is not easily available—and gold coins are issued with a full gold content, the result would be that the only way in which the people of rural parts can get hold of coins, being made easy they will freely melt them for making jewels and employing them for other social uses; when we find the imports of gold into this country during the past two or three years when gold has become cheaper, and fallen in price, when we find that India has been importing remarkably large quantities of gold during the last three or four years not for any currency purposes but purely for social uses, my fear is that gold coins would certainly go to the melting pot in the rural areas, with the result that there would be a fall in prices, a greater fall than may be traced to other causes.

8293. But the view put to us has been that the people hoard gold and melt coins because it is so difficult to get gold, and that if they could get it easily, they would give up this habit of hoarding and melting?—So far as I am aware—I do not know what they mean by the word "hoarding"—the only purpose for which gold is desired in this country is for social uses, that is using gold idly in jewels and other social purposes. I have not come across any instances of persons hoarding gold and putting it underneath the earth or elsewhere. By "hoarding" I only mean using it idly for social purposes. If people have got the desire to use it, that desire is dependent upon other social causes and not because there is any difficulty in getting gold coin. There desire continues to exist, whether there is gold coin available or not.

8294. You have not come across any instances? Have you ever heard of rupees being hoarded?—I have heard that rupees were being hoarded that is accumulated idly in the 18th and 19th centuries but not recently. But that is not the kind of hoarding I have in mind. By hoarding I mean employing it idly for ornaments and other purposes; and I am very certain that if gold coins with a full gold content are used, they would certainly disappear from circulation; part of them will go out of circulation and go to the melting pot.

8295. And then for facilitating international payments, would you have your Currency Exchange Reserve kept not only in commercial centres in India but in those foreign countries with which our international trade is mainly carried on? It has been represented to us that the reserve ought to be in gold and ought to be held in this country. I gather that you do not share that view?—I do not share that view. My reason is that the objection against locating the currency reserve in foreign countries is purely founded upon a political suspicion. If the currency is entirely separated from the Government and entrusted to a bank of the kind which I have advocated, then I do not think that the people of this country will have any objection to locating the currency reserve in foreign countries as well as in India, especially in those foreign places with which we mainly deal. I find that in other countries, for example Japan and New Zealand, they do hold their currency exchange reserves in London and other important foreign places with which they have to deal.

8296. Do they hold them in gold or in foreign securities?—Yes.

8297. I gather that you would prefer to hold them in securities?—Yes, but in present conditions I think it is safer to hold it partly in gold and partly in liquid securities.

8298. In foreign countries you would hold the gold also?—Gold in India and securities in foreign countries.

8299. Now with regard to the ratio of the rupee to the pound, you say that the rupee may be reduced to the position of a subsidiary monetary unit at a fixed ratio of say fifteen to one to the pound sterling. Could you explain why you support that particular ratio?—Though the ratio is immaterial when the rupee is reduced to the position of a susidiary coin, my reason for maintaining that ratio is that for a long time we have been familiar with such a ratio in this country, and any other ratio will require an arithmetical calculation in people, which is wholly an unnecessary trouble that may be avoided.

8300. And would you introduce that ratio at once? —Yes, if the rupee is reduced to a subsidiary coin, that ratio may be introduced at once.

8301. Would that not cause an immediate rise in prices and a general unsettlement in commercial conditions?—I do not think it will have any effect upon commercial conditions if the rupee is to be a purely subsidiary coin and the main currency of the country is to be the pound or the mohur as I have suggested.

8302. Would it not cause an immediate rise in prices?—I am unable to see how it will cause a rise in prices, except that in some commercial transactions those who have bargained in terms of rupees may feel some difficulty.

8303. Surely you would have to pay 12½ per cent. more for everything that you import, would you not? —When this ratio is to be restored, there will be a main currency for the country. The chief currency for the country will be in terms of a gold standard, in the shape of the pound or the mohur, and when that is the case, those people who have made contracts may have to pay in terms of the pound, in terms of the main currency of the country.

8304. Do you mean that you would convert all rupee debts at present into gold debts at the rate of Rs. 13⅓ to the pound; is that what you mean?—I have suggested Rs. 15 to the pound.

8305. You say that you would subsequently introduce this fifteen ratio after you had converted all debts on to a gold basis?—Yes, after converting them into a gold basis, otherwise the sterling debts would be larger.

8306. I do not quite follow?—I do recognise that if it is suddenly introduced before the main currency is introduced, there would be some dislocation of commercial transactions, but that will not in any way affect prices in this country because it will lead neither to an increase nor a decrease in the existing volume of currency.

8307. Let us deal with prices first: you say it will not affect prices at all if you reduce the value of the rupee from 1s. 6d. to 1s. 4d. You say it will not affect internal prices?—Yes, internal prices. It may not have any effect on internal prices, because it does not increase or decrease the volume of the currency. It keeps what is in circulation. With regard to transactions with other countries, on account of adopting this ratio, there would be a difficulty so far as the importers are concerned.

8308. Then it would affect the prices of imported articles?—It will not. The foreign sellers are now gaining in terms of sterling a larger amount than what they have been gaining previously.

8309. But taking things as they are at present if you want one pound worth of foreign goods you have actually to pay Rs. 13⅓. If you reduce the exchange to 1s. 4d. you have to pay Rs. 15 for the same amount of commodities?—At the same time we also have a gold standard. Only if we have a gold standard we have this ratio.

8310. But you will have still to pay Rs. 15 instead of Rs. 13⅓ for £1 worth of commodities; will you not?—Of course there is some difficulty. That is what I also feel. There is some difficulty with regard to the dislocation of prices. Prices may be affected. But this ratio would naturally have been brought into existence but for the Government withdrawing from circulation the amount that it is now locking in the currency reserve.

8311. Now you recommend that the currency system of the country should be entrusted to the

Imperial Bank, which requires to be first converted into a State Bank and a Banker's Bank?—Yes.

8312. And you say later on, "Of course this system requires for its successful working the development of a credit system which we do not have in India at present?"—Yes.

8313. Am I to understand that you would defer this transfer of the currency to a State Bank until the credit system in India has been developed?—That is not necessary. The credit system will make things easier. Until the credit system is developed we need not postpone this. If the Bank becomes a Bankers' Bank, necessarily the credit system would develop easily and quickly.

8314. You mean to start the Bank and trust to it to develop the credit system? Is that what you mean?—Yes.

8315. And you think it could do that in a very short time?—It may take some years. It may take even 10 years for the full development. But that need not stand in the way of the Bank discharging the duties in the manner indicated in my memorandum. The development of the credit system is not an essential part of the currency system. It may be of much use for the country. But that is not necessary for the success of the currency system and for the State Bank taking it over.

8316. You mean that it could work the currency, but it could not control credit and therefore internal prices? Is that your position?—Yes. If it becomes a State Bank through which all the other banks are made to transact their business, then with the help of its bank rate it can also to a large extent control internal prices and keep them fairly steady. But for the purpose of regulating the currency, it is not necessary that a credit system should develop.

8317. (*Sir Purshotamdas Thakurdas.*) Mr. Ramaiya, you said in reply to the Chairman that you did not think there was any hoarding of precious metals in India. You don't think there is any hoarding of precious metal in India?—I do not know in what sense it is used. If it is in the sense that the metal is locked up in pots or buried underneath the earth or put into boxes and kept idle, I must differ from any person who holds an opinion that there is hoarding in that sense.

8318. In what sense according to you is there holding of precious metals by the people of India?—Hoarding?

8319. You said you did not believe in hoards; I therefore use the word "holding"?—By using them in jewels, ornaments and other social uses.

8320. I see; you do not believe that the people hold precious metals in bullion form at all; but as soon as they get precious metals they convert them into some sort of ornaments or utensils?—Yes; their demand comes in for that purpose only. My view is that the demand of the people is only for social use.

8321. Not for the purpose of holding it as bullion?—Not to my knowledge.

8322. Then regarding the 74 crores worth of gold which was imported last year to which you refer in paragraph 10, it was all for the genuine purpose of jewellery?—Jewellery and other connected purposes.

8323. Social or religious purposes?—Social and religious purposes.

8324. And the people want that, therefore, for bonâ fide purposes?—For ornaments, to satisfy their æsthetic taste.

8325. That is bonâ fide indeed, as far as the nation is concerned?—Yes, bonâ fide.

8326. If a gold coin were in circulation, your apprehension is that the people instead of buying gold bullion in the market would turn the coin into ornament?—I must make myself accurate. I mean gold coin with full intrinsic value.

8327. We are talking of a gold coin with full intrinsic value?—Almost all people in rural parts, so far as I know in that part of the country in which I have some knowledge, are getting gold only through sovereigns and not in bullion.

8328. Even when the sovereign is not a current coin?—Yes.

8329. And your apprehension or your disapproval of a gold currency is . . . —Of full intrinsic value?

8330. Whenever I say gold currency, please understand that I am talking of gold coin with full intrinsic value, not a token coin. Your apprehension regarding gold currency is that the people may use the coin for the purpose of turning it into ornaments instead of going to the market to buy gold?—Instead of going to a distant market to buy bullion. People of rural parts have got access to the bullion market, but gold coins come to them.

8331. Well, the sovereign has not been current in India as a coin for the last few years?—Not through the Treasury, but it is sold in all villages.

8332. Therefore, it is available to the people?—Yes.

8333. And gold bullion would also be similarly available to the people if there was a demand for it?—If there was a demand it would be available.

8334. Therefore, there will be no difficulty for the people in getting it?—There will be no difficulty.

8335. Why do you then think that the people will use the coin for the purpose of conversion of it into ornaments in preference to gold bullion?—My reason for that is, while for gold bullion they have to go to a market, so far as currency is concerned, it comes to them. Merchants and others come and pay them in gold coin, and they take the easiest course.

8336. Has it come to them in the last few years?—Within the last few years, after the war, it has not come to them.

8337. Still they have managed to make ornaments worth 74 crores?—Yes.

8338. How has that happened?—With regard to these 74 crores, they represent the requirements of some other years. It was imported into this country in anticipation of future demand on account of the cheap prices.

8339. It does not matter. Whatever the requirements of the people were for the current year they made them out of the gold bullion, the sovereign has not been current?—These 74 crores do not merely represent bullion. It represents both bullion and coins.

8340. Total imports? What I want to find out from you, Mr. Ramaiya, is, is your apprehension that the gold coin will go only into ornaments justified?—Ornaments only, I will not say. It is liable to go into ornaments in the rural parts.

8341. If it is not a token coin?—Yes.

8342. Did it so go before 1914, Mr. Ramaiya?—I find that the silver went so in 1921-22.

8343. When the price of silver was above the melting point of the rupee?—Yes.

8344. But when the price of gold and the gold contents of the sovereign are the same, as was the case before 1914, and when Government gave out the sovereign from the Treasury, do you find that the people use the sovereigns for the purpose of ornaments?—They used the sovereigns for the purpose of ornaments previously, before 1914.

8345. Have you any idea of the figures of the taking of sovereigns by the people before the war from the Government Treasury?—No.

8346. You don't remember that?—I don't remember that. But before 1914 gold coins were not used for currency purposes.

8347. The Government used to give them out from the Treasury whenever they could spare them?—Yes, and the demand for them was more or less for only social uses. That is my view.

8348. If the average over a period of 12 years (1901-2 to 1912-13) worked out to only $7\frac{1}{2}$ crores of sovereigns and if the people did not take more, would you say that people use all sovereigns only for ornaments?—Mostly for ornaments, that is my belief.

8349. You quote from a Professor of Economics of Madras University and you say that he does not explain the reason for his statement?—That is about the intermediate stage which he refers to.

8350. Yes, that is all here; I am only referring it to you now. Can you suggest any other method by which to popularise your gold notes, currency notes issued against gold in the Treasury? Do you think the people will take inconvertible gold notes?—I think they may be made convertible into gold bullion. I find from the official memorandum just now given to me bank notes should be payable on demand. I find on page 1, gold notes should be payable on demand in rupees and so on. Instead of that, as they do in England just now under the Gold Standard Act, if gold bullion in fixed quantities is given to the people in return for currency notes representing a pound or any gold currency notes, I think people would take the notes and the notes should be very popular.

8351. The minimum for this sort of conversion would be fixed fairly high, it would exceed at least a thousand rupees?—Yes, it would exceed a thousand rupees.

8352. Do you think that would be appreciated by people in the rural areas?—If not one thousand rupees, it may be fixed at Rs.150 or Rs.200.

8353. I see, you would make gold bullion worth Rs.150-200 available in conversion for the gold notes?—Yes, if really such a thing is desired. I, personally, find as a person having only an academic interest that if notes were made inconvertible in the country there is no reason why such a thing should fail to be popular. But if gold is desired for these gold notes, then for the purpose of caution you may well say that gold bullion may be made available for notes.

8354. We are trying to find out whether it is desirable or not. We seek your assistance in that matter. As an ideal it is all right; everybody should try to work up to it. But do you think that ideal is feasible in India at the start. Let me put you a question. Supposing a cultivator, upcountry in the rural areas, gets gold notes to the value of say Rs.600 and it is inconvertible, do you think that he would either like it or that it would not inconvenience him very seriously?—It will not inconvenience him for currency purposes and I do not think he will dislike it.

8355. You don't think it will inconvenience him?—No, because the existing rupees are also in circulation as full legal tender. For higher amounts he would require notes. Even now 100 rupee notes and other notes are very popular and the same condition may prevail.

8356. The 100 rupee note can go through the Treasury and he can convert it into silver?—But very few go to the Treasury to convert 100 rupee notes into silver because they are very popular. 100 rupee notes are circulating and notes of smaller denominations and rupees are readily available when wanted.

8357. But the mere fact that he could convert it, that he could get 100 silver rupees for it has an additional value in it for the ryot upcountry. Supposing there is a 5 sovereign note—you yourself suggest 5, 10, 50 and 100 sovereign notes somewhere; supposing there is a 5 sovereign note which is given to a ryot in exchange for his produce. Surely he wants to change it into smaller fractions?—Then he can change it into 5 rupee notes which are in existence.

8358. The gold notes therefore *primâ facie* though inconvertible in gold would have to be convertible in silver?—No, convertible into notes of smaller denominations.

8359. Silver notes?—Not necessarily notes of silver; fractions of pounds; and fractions of pounds I call rupees instead of shillings.

8360. Yes but fractions of pounds are rupees, therefore the gold note will be convertible into silver?—Not silver, but into rupee notes.

8361. You mean into silver currency paper?—Yes.

8362. I see; and thus you can avoid having to call for any bullion at all against the paper when he wants to change it. That is your point?—Yes, except for social purposes he will not require gold currency—except for purposes connected with ornaments and other social purposes.

8363. He need not change it into gold?—He will not change it and he does not care to change it.

8364. And you say silver rupees should be unlimited legal tender?—There will be the existing silver rupees, but no more fresh rupees should be coined.

8365. You further recommend that no more silver rupees should be coined?—The only way out of the difficulty is to keep the existing silver rupees. Otherwise, to convert them will reduce the price of silver in the world market and will cause a great loss to the country.

8366. In order to avoid that loss and also to make available for the people of rural parts you want rupees of smaller fractions?—The existing silver rupee may be full legal tender. They are already acquainted with it.

8367. Keep the existing silver rupee full legal tender and coin no more rupees?—No more silver rupees.

8368. That is for the present or do you think that should be laid down for ever?—For ever. Of course in currency matters no one can claim permanency for an indefinite time.

8369. For 10 or 15 years, say?—Yes.

8370. And when you come to a point where you must have more silver rupees for currency purposes you would make the rupee limited legal tender? I mean the existing rupees would continue?—If the country becomes more prosperous, say in 10 or 15 years at the rate of progress she is making, then we can limit the legal tender of the rupee.

8371. At some stage like that you would have to make the silver rupee restricted legal tender. Would the gold notes be convertible into silver?—Into smaller notes. I have suggested notes of Rs. 10 and 5 but not anything for amounts of less than Rs. 5. But I would also like one rupee notes to be issued.

8372. Until the present stock of 90 crores in the Government Treasury has gone into circulation you would keep the rupee unrestricted legal tender?—Yes.

8373. And when the Government find it necessary for them to coin more rupees they should make the rupee restricted legal tender? They will have to because you say they must not coin any more silver rupees or buy any more silver; therefore they must make it restricted legal tender?—That is not necessary. In France silver coins have been kept full legal tender before the War.

8374. Would you keep them full legal tender and still not supply them with silver rupees?—That is not necessary. We can issue rupee notes paper currency.

8375. I see; you won't give them the coin. The existing coin will be in circulation but further demands for smaller fractions of the pound will be given in terms of paper currency?—The Government even now is not bound to give silver rupees. Hereafter on account of the fact that the silver rupee is to be made full legal tender the Government may put the existing rupees which are in reserve also into circulation.

8376. Do I understand you to say that the present rupee currency notes are inconvertible into silver?—They are convertible.

8377. Therefore either the convertibility of the rupee notes will have to be stopped or the Government will have to coin new rupees?—They will have to be stopped.

8378. And therefore silver rupee notes will be inconvertible into silver 10 or 15 years later?—We are bound, the Bank is bound to supply only foreign currency if necessary.

8379. I am talking of internal currency. Therefore 10 or 15 years later you will have an inconvertible silver currency note and an inconvertible gold currency note?—Yes.

8380. And you think that the country can carry on with the inconvertible paper, both silver and gold?—I do not see why it should require any metal at all.

8381. Therefore we have come to the conclusion that if 10 or 15 years later when the 90 crores of rupees which are in the Treasury are all in circulation, Government may come to this inconvertible rupee currency and inconvertible gold currency?—Both full legal tender.

8382. Both full legal tender and both paper currency. Now do you think that is suitable to India?—My view is that it is the best system suitable for all countries.

8383. As an ideal no doubt, but for practical purposes from your knowledge of the condition of the people, from your knowledge of the requirements of the people, do you think that this is either desirable or feasible in the present state of India?—Within 10 years gradually it will become feasible.

8384. You think that within 10 years the standard of education will have improved so much?—Also the acquaintance of the people with the existing currency. The rupee notes previously issued during the War were very popular and did not depreciate and there was no difficulty. I think the people will become accustomed to the situation and be satisfied with the situation.

8385. The rupee notes you say during the War were very popular. Do you think the popularity of the rupee note would have continued if the Government had had to declare the rupee note inconvertible at any stage during the War period?—Inconvertible into rupees?

8386. Yes?—So long as it was legal tender it would have continued to be popular.

8387. So that whether people could convert the currency note into silver coin or not you think the people of India would not have minded it?—Not have minded it. Even silver rupees are not worth their intrinsic value.

8388. But they are worth something?—So long as you are able to provide for the country's currency notes foreign currency for exchange purposes, there is no reason why people should distrust it. At the same time if you divorce the currency system from the Government and entrust it to a State Bank there is no reason why people should not accept the position.

8389. That may be quite correct; I am not challenging it. What I say is does the cultivator and the man at the wayside village understand it? Does he not understand that when he takes a currency note to the Treasury he can get silver jingling there in his hand?—I very much doubt whether the ryot ever takes currency notes to the Treasury.

8390. He goes on passing it on himself?—Yes.

8391. Does not he get change from the sowcar or the village marwari when he wants it?—In notes of smaller denominations. If he has a 100 rupee note he gives him 20 five rupee notes for it.

8392. Exactly. But if you give him a five rupee note he gives you five rupees in silver if you want it?—He may give me instead of that five one-rupee notes.

8393. And you do not think it matters at all whether you are likely to exchange your note for silver coin or not?—It does not matter.

8394. (*Sir Norcot Warren.*) You say in paragraph 17 that "the present Imperial Bank is too weak and powerless for any constructive or originating action." What do you mean?—The Board is there merely to consult; it has not got any other power to influence the bank's policy.

8395. I entirely differ with you; they are not there simply to be consulted; they are there to guide the bank's policy?—I find from the Imperial Bank Act that they are given some power of advice and nothing else. I also had a talk with one of the Honorary Governors of the Bank and he said he could not bring in any changes; so far as the policy of the bank was concerned he was absolutely powerless.

8396. I can tell you you are quite wrong and that the Governor, whoever he was, is also wrong?—That may be; he might not have utilised his power; but I find from the Imperial Bank Act that it does not give full powers to the Board to control the policy of the Bank.

8397. But they do control the policy of the bank; they have full powers and they do control it. If they do not control it who else controls it?—I mean the Central Board consisting of the Governors, that is, the Managing Governors and also the other Governors.

8398. They are the controlling body; if they are not the controlling body who else is the controlling body?—I say that further legislative powers under the Statute must be given to strengthen the position of the Board.

8399. What do you propose? What powers?—Powers more or less similar to the powers of the Board of the Commonwealth Bank of Australia.

8400. Well, I know the powers of the Commonwealth Bank of Australia; the powers that are given to the Imperial Bank Board here are greater than that?—I have not much experience of that.

8401. Just so: you ought not to have written this. You then say the Bank should have an advisory committee of experts in London?—Yes.

8402. They have got that already: they have got three experts on the advisory committee?—That is an advisory committee for the purpose of foreign exchanges.

8403. Never mind what it is there for: there is a committee there for advising the bank, and one of those experts is one of the biggest experts in the world?—What I mean here is that for the purpose of its currency policy, because currency is an international problem, they must have experts in London to advise the bank with regard to the currency policy both internal and external.

8404. I tell you we have got them.—But the bank has not got currency powers.

8405. I say we have got these experts. They are there waiting to be consulted.—Then that satisfies me; that is all.

8406. (*Professor Coyajee.*) Do you not think there is an inherent difficulty in finding a suitable monetary system for a country which has got a large proportion of favourable balances?—It is difficult.

8407. Take a gold exchange standard; there also when there are a number of favourable monsoons following each other, more council bills were sold and India swallowed up the money with a great gulp, as Professor Keynes would say, and therefore there was always the tendency that too many rupees were coined before the war; was not that the difficulty and was not that a constant complaint?—My view is that there would not have been such favourable balances if the volume of country's currency was regulated with reference to the condition of trade alone.

8408. You mean if there had been a gold standard?—If there was a perfect gold exchange standard under which the regulation of the internal currency would be dependent upon the volume of the favourable net balance of trade, there would not have been a favourable balance in the long run; exports and imports including the invisible imports will balance.

8409. True; but whoever managed that currency would have to look to the rise of prices in the country: So that a few favourable monsoons succeeding each other, even two, would raise the prices above what they would be in the ordinary

course?—Yes; being an agricultural country, monsoons do influence.

8410. And if a gold standard was there, the samo would be the difficulty, because supposing we had three or four good monsoons, as we have had during the last few years, gold would be coming in until prices rose very high, and then, whatever the fate of the fourth monsoon, whether it was favourable or unfavourable, the balance of trade would have to be unfavourable because of the height of prices?—Yes.

8411. So that whatever the currency system you adopt for India, whether it is a gold standard or a gold exchange standard, there is an inherent difficulty?—Yes; there is a certain inherent difficulty; there is no doubt about that.

8412. You havo observed that the main demand at present for gold in India is for social and religious purposes?—Yes.

8413. Then, if a gold currency is introduced, not on your lines, but gold currency is actually introduced with coins in circulation, there will be an additional demand for gold, will there not?—Yes.

8414. (*Mr. Preston.*) In paragraph 13, in the beginning you say "The entire currency system of the country should be entrusted to the Imperial Bank which requires to be first converted into a State Bank and a Bankers' Bank." Then you go on to say "Without an efficient Central Bank of the kind described above a proper regulation of the currency and exchange system of the country is impossible." Then you go on to find fault with the Imperial Bank and say that it has no right to work for the profit of its shareholders. Then you say later on "If our proposed State Bank should be made to become a Bankers' Bank, etc.," and in paragraph 19 "In view of the fact that the State Bank in our scheme is made a Bankers' Bank it can efficiently control the internal credit situation, etc.," and then, if I may refer back again where you say that the Bank has no right to work for the profit of the shareholders, what I suppose you mean to emphasise is that the Bank should carry out the duties entirely connected with a State Bank: Is that your meaning? That it should become purely and solely a bankers' bank?—Yes.

8415. That is your idea?—Yes.

8416. Then you quote a system which according to Mr. Tocker exists or is said to exist in New Zealand. Under that system the State Bank there in all its exchange business has to deal with other banks as a banker' bank: is not that so?—I find from Mr. Tocker's article that there are six exchange banks each dealing separately.

8417. Yes; but the central bank deals with the six exchange banks as a bankers' bank?—I do not find that in Mr. Tocker's article. What he says is that the six banks deal separately with foreign countries through London; it is not necessary for any of the banks to transact its foreign exchange business through the central bank.

8418. No; but it is necessary for the central bank to transact its foreign exchange business through the other six banks?—That may be so; I do not know.

8419. Therefore, when you blame the Imperial Bank for making profits for its shareholders, why do you say in paragraph 15 "Besides doing exchange business the Bank should be left in entire charge of Government remittances abroad and empowered to receive all moneys in its behalf both within and without the country." Do you really mean that?—I mean foreign exchange business and it is as a Government department they will have to do it.

8420. You mean really "Besides doing exchange business" for currency purposes?—I mean foreign exchange. The entire foreign exchange of the country should be transacted only through the State Bank; that is what I say,—by the other banks through the State Bank.

8421. But that is for currency purposes?—For all purposes. The transactions between this country and other countries should be transacted only through tho State Bank: other banks would have to go to the State Bank to transact their foreign exchange business.

8422. You are reversing the process which you quote here as being in force in New Zealand?—I quote New Zealand only to show the way in which the matter of exchange is operated.

8423. In New Zealand they have a central bank and the Central Bank manages the currency?—By making this quotation I do not mean to say that these are matters which the bank should manage. I only indicate the way in which our currency transactions should be managed; and with regard to the view that the State Bank should be strengthened, I find in an article in the Economic Journal that the Commonwealth Bank of Australia has been given monopoly powers with regard to foreign exchanges and is the bank through which other banks have to transact that business.

8424. Where did you get that from?—From the Economic Journal for March 1925.

8425. All the Australian banks you say have got to go to the Commonwealth Bank of Australia for exchange?—I remember to have quoted it in the memorandum—the provision that private banks should settle foreign exchange transactions through tho Commonwealth Bank.

8426. So that all the banks in India under your scheme if they had business in foreign exchange, would do it solely and wholly with the Imperial Bank of India, that is your intention?—Yes. That is my intention.

8427. (*Sir Alexander Murray.*) In the very first sentence you say "The country has what may be called a Rupee Standard which is linked neither to gold nor to silver." Now what do you actually mean by that? Do you mean that in the past people dealt with the rupee as being a standard coin irrespective of its relation to gold?—Or silver; it was an inconvertible silver note.

8428. Quite true: but when people dealt with that in pre-war years, did they always look upon it as being one fifteenth of the sovereign?—This does not refer to pre-war years at all; I say under present conditions.

8429. But in pre-war years, what did they look upon the rupee as, if during the recent years they havo looked upon it as being neither connected with gold nor with silver?—In pre-war years there was at least a supposition that it could be converted into sovereigns at Rs. 15.

8430. But Government never undertook any statutory obligation to convert it into gold?—It had no obligation to issue gold coins for silver rupees.

8431. The average agriculturist when he dealt in rupees or dealt in notes, did he deal in the rupee as being $\frac{1}{15}$th of a sovereign?—He dealt with it as $\frac{1}{15}$th of a sovereign, because no contingency arose for him to think over the matter.

8432. But did he link it up with the sovereign in any way?—He had no occasion to feel about it, because there was no difficulty for him in converting it.

8433. Then amongst the reasons that you give for going on to a gold standard is that given in paragraph 8 (iii), where you say that the public opinion is due mainly to political suspicion. What does that actually mean?—The Government of the country is suspected of working, of conducting its currency system, for the benefit of England, the Government of the country is suspected among business circles in the country of managing the currency system to suit the interests of Great Britain. That is the suspicion.

8434. But you have studied the question. Do you also hold that opinion?—I am unwilling to attribute any motives to the Government.

8435. Therefore you don't agree with public in that respect?—I don't say that I don't agree or disagree.

8436. Well, you say also that the adoption of a gold standard is a concession to human weakness and conservative feeling. Now, what do you really mean by that?—In the world people have in the past been accustomed to a gold standard and their conservative tendencies are after all in favour of the adoption of a gold standard and not a managed currency.

8437. Well now, the people of India in the past have not been accustomed to a gold standard and they are very conservative people. Therefore, why do you use this argument in favour of a gold standard now?—Intelligent opinion in this country—not the people of the country who don't know about tho facts but the people of the country who know about the state of things in the other parts of the world, they feel that when other countries have got a gold currency, for us solitarily to possess a silver standard or a rupee standard may lead to the wrecking later on of our industrial and commercial progress.

8438. Now the closing sentence in the second paragraph on that page is that the cost of adopting the gold standard at any future time will increase enormously?—The reason for that is if India should continue to coin silver rupees, the other countries having demonetised silver and having taken firmly to gold, the demand for silver for currency in other countries will be small and the price of silver will naturally go down and the more silver prices go down the more will the silver content of the existing rupees depreciate in value, and also in future if at any time we have to convert the currency of the country to a gold standard, there will be enormous difficulty on account of the country having been flooded with silver rupees.

8439. No, but the country now has got silver rupees and if we go on to the gold standard now, won't these rupees depreciate in value?—The rupees won't depreciate in value because they have to be full legal tender. If the rupees are melted now and sold as silver, they will certainly depreciate in value.

8440. Now, when you go on to a gold standard, whether now or at some future date, you purpose keeping rupees as full legal tender?—We can keep the rupee, the rupee may be kept as full legal tender later on also. And for ten years more if we postpone the adoption of the gold standard.

8441. But what I want to know is why should the expense increase enormously ten years hence more than now?—If silver bullion also is held, if the present state of things should continue, then what I say is that the price of silver is likely to depreciate later on and also we are not sure that the price of gold will remain the same as it is at present. Gold prices may also increase on account of the recovery of the countries which are now weak after the war.

8442. At any rate, you consider that gold coinage is undesirable and a waste?—Yes, from the strictly academic standpoint.

8443. And you are in favour of a gold standard without gold coins in active circulation?—Yes.

8444. And you say under your scheme further issues of currency will be in the form of paper notes backed by a reserve?—Yes.

8445. And you suggest that in future the note issuo will be managed by a bank, either the Imperial Bank or a central bank?—Yes, I say that.

8446. Well now, I just want to find out what the difference between your system and a gold exchange standard system is. Because under your system you are going to have the rupees circulating as full legal tender in the country, the rupee is to be the local currency?—The rupee and also the pound.

8447. Quite true. Then you want to have the note issue in the hands of the bank in future. Then you purpose also consolidating the two existing reserves, the paper currency reserve and the gold standard reserve into one single currency exchange reserve?—Yes.

8448. Then you purpose facilitating international payments by keeping your currency exchange reserve partly in India and partly possibly in London, New York, and Yokohama?—Yes.

8449. And I suppose you expect that the bank will undertake to buy and sell either gold for export or foreign exchange at certain gold points?—Yes.

8450. Well now, if you do all that, what is the difference between your standard and the gold exchange standard?—I may say at once that a gold standard conducted on those lines is necessarily a gold exchange standard, the ideal gold exchange standard. There is after all very thin line of demarcation actually between the gold exchange standard and the gold standard. My grievance against the present system is against Government manipulating the currency. I want that Government as such should have nothing to do with the currency any more.

8451. And who do you want should have to do with the currency?—The bank.

8452. Just one moment. Leave aside who is to look after the currency. You agree that your system in effect is a gold exchange standard system?—Yes.

8453. The only point——?—I will call it a currency exchange standard. It is not exchangeable in gold. In order to facilitate the exchange of currencies the standard exists. It is an exchange standard.

8454. Yes, but the gold exchange standard is a standard that enables you to get rupees for internal currency?—Rupees and pounds also for internal currency, according to my system. Paper currency for internal circulation and foreign currency for payment abroad.

8455. That is a gold exchange system?—An exchange standard, whether it is gold or not. Because all the countries are holding gold, because we hold gold bullion too, we may call it a gold exchange standard. But it is an exchange standard.

8456. Very well. The only point at issue then is that you don't like to see that system controlled by Government. But you are willing to see it controlled by the bank?—Yes.

8457. That is the only difference?—That is not the only difference. The regulation of currency must also be on a principle which the Government is not following now, on the principle of the balance of trade determining the volume of internal currency.

8458. But that will not be automatic. That must be decided by somebody, and you purpose that the body in future should be the bank instead of the Government?—The bank has to regulate it on a particular principle, the principle I am enunciating. It is better that the matter also is put in legislation.

8459. Well, will you please tell us shortly your principle?—I have stated it here, in paragraphs 13-19.

8460. That is where you refer to these exchange things?—And then my principle is in paragraph 19, the last paragraph. "Under the existing system of currency in India the volume in circulation is dependent not on any principle of automatic regulation or scientific management, but on the will of the Government." That I want to avoid.

8461. And in future it is to be on the will of the bank?—Not on the will of the bank but the bank will have to regulate it according to the net balance of trade. To withdraw currency from circulation if there is an unfavourable balance and to the extent of the unfavourable balance, and if there is a favourable balance, to the extent of the favourable balance to issue more internal currency.

8462. Well, the bank will have to do all that?—The bank will have to do that only according to that principle and not according to any other principle as the Government is at present doing.

8463. Well, now, dealing with the bank then, you make certain suggestions here regarding the constitution of the bank?—Yes.

8464. Suggestion No. 1—does the existing Central Board not meet the requirements of your first section? You say: "The appointment of a Board of Directors representing special commercial and industrial interests."—I only say that this is instructive. The Commonwealth Bank of Australia has adopted these things.

8465. Quite true. I want to see whether these things are applicable to India. Is principle No. 1 applicable to the present Indian Board?—Yes, the first is applicable to India.

8466. Well now, does it apply to the present Central Board?—With great respect I must submit that I don't think that the present Board is as regards this representative enough.

8467. Does the present Board not represent special commercial and industry interest?—But it does not control the bank.

8468. No, no. But I am taking these points item by item?—But the appointment of this Board is intended not merely to meet but to control the bank. I want it to control the bank.

8469. But you agree that the present Board is representative of special commercial and industrial interests?—I am not quite clear about the representation.

8470. Do you know how the present Board is constituted—how many are appointed by Government and how many by the shareholders?—I do not remember.

8471. As far as I can see, the present Board already does items 1 and 4 at least of that list, and No. 2 you suggest they should do in future?—No. 3 is also a matter for arrangement; so that in effect only 2 and 5 remain to be given to the Bank.

8472. Yes, but you said to Mr. President that you propose that in future the Exchange Banks will not do exchange business with London except through the Imperial Bank?—Yes.

8473. But is it not the other way about, that the Exchange Banks do the business and the Imperial Bank is not allowed to do that?—Yes.

8474. You think that should be reversed in future?—Yes. That will facilitate the way for stabilizing internal prices.

8475. *Chairman* (*Sir Reginald Mant.*) Mr. Ramaiya, the Commission is very much obliged to you for your interesting memorandum and for the evidence which you have tendered.

(*The witness withdrew.*)

TWENTY-SECOND DAY.

Wednesday, December 30th, 1925.

PRESENT:

THE RIGHT HON. EDWARD HILTON YOUNG, P.C., D.S.O., D.S.C., M.P. (*Chairman.*)

Sir RAJENDRANATH MOOKERJEE, K.C.I.E., K.C.V.O.
Sir NORCOT HASTINGS YEELES WARREN, K.C.I.E.
Sir REGINALD MANT, K.C.I.E., C.S.I.
Sir ALEXANDER ROBERTSON MURRAY, C.B.E.
Sir PURSHOTAMDAS THAKURDAS, C.I.E., M.B.E., M.L.A.
Professor JAHANGIR COOVERJEE COYAJEE.
Mr. WILLIAM EDWARD PRESTON.

Mr. G. H. BAXTER, Mr. A. AYANGAR } (*Secretaries*).

Mr. RAM KUMAR JALAN and Mr. KASTOORMAL BANTHIYA, representing the Marwari Trades Association, Calcutta, called and examined.

8476. (*Chairman.*) Mr. Ram Kumar Jalan and Mr. Kastoormal Banthiya, you are good enough to come here this morning to represent the Marwari Trades Association of Calcutta?—(*Mr. Kastoormal Banthiya.*) Yes.

8477. Are you the Chairman of the Association, Mr. Kastoormal Banthiya?—I am a member of the Association and this gentleman, Mr. Ram Kumar Jalan, is the Vice-Chairman of the Association.

8478. Your Association has been good enough to furnish us with a memorandum* setting out their views?—Yes; we sent later on an additional note.

8479. We have also received from you a further communication making two corrections by way of omission in your memorandum?—Yes, in paragraph 11

8480. Shall I address my questions to you in the first place, Mr. Kastoormal Banthiya?—Yes.

8481. Will you please tell us something about the nature of your Association? In the first place, what is its membership?—200.

* Appendix No. 41.

8482. Secondly, what is the nature of the interests represented in the Association?—It represents all sorts of merchants, piece-goods merchants, importers and bullion dealers. It is a general body to protect the interests of the Marwari community in trade and commerce.

8483. And these members are all engaged in trade in Calcutta?—Yes.

8484. When was your Association founded?—30 years ago.

8485. You tell us it represents merchants; import merchants?—Import, export and all kinds of merchants.

8486. And bullion brokers?—Not bullion brokers, but bullion merchants there are.

8487. Exchange brokers?—Yes; there are some exchange brokers.

8488. Any manufacturers?—Yes.

8489. What do they manufacture?—They have got cotton mills; they have got jute mills; some have got collieries.

8490. Bankers?—It is the chief business of the Marwari community.

8491. For the benefit of the members of the Commission who are not so intimately acquainted with these matters, could you state very briefly the nature of the banking business conducted by a typical member of your Association?—Generally we deal in bills of exchange, local bills of exchange. We buy in up-country or sell bills of exchange in up-country or they can buy at our Bombay or Calcutta Office. Everywhere we have got branches. We have got branches in Cawnpore, Bombay, Calcutta and several other places. They are also in cotton districts. There we do banking business. We also deal as sowcars to the cultivators. We finance all the crops. We give them advance before sowing.

8492. These bills of exchange to which you refer are internal bills?—Yes; hundis.

8493. Therefore, the business of your typical member is to finance the crop from the cultivator to the point of export?—Yes; to the ports of export, Bombay and Calcutta and also on piece-goods and imported articles.

8494. You finance them from the port to the cultivator?—No; from here to up-country.

8495. Turning now to the memorandum of your association, we understand that you come here to-day, Mr. Banthiya, to explain the views of your Association and not your personal views?—Yes; the views of the Association only.

8496. I will now, if I may ask you a few questions to elucidate whatever seems to need elucidation in very full memorandum. Your proposal, generally speaking, is that there should be a gold mohur of the same fineness and weight as the British sovereign, with rupees serving the function of subsidiary coins at the ratio of 15-1. You propose the establishment of a gold standard, meaning a system of currency with a circulation of gold, and that the rupee should be made convertible into gold?—Yes, and unlimited legal tender.

8497. And unlimited legal tender; but that, after the gold standard has been effectively established, the amount for which the rupee is legal tender should be limited to Rs. 100?—Yes.

8498. You further recommend that the note issue department of the Government should be handed over to the Imperial Bank, subject to certain conditions; and these I think are the positive recommendations contained in your memorandum?—Yes.

8499. Now let me turn to your memorandum and ask you one or two questions just to test your arguments. In paragraph 5 you say that "people are bound to regard with increasing suspicion a policy (substantially the existing policy) which compels them to receive the rupee as the equivalent of about 50 per cent. more than its real value." Now just to test that, let me ask you why you distinguish the rupee from the note. The existing policy compels them to accept the notes at a great deal more than 50 per cent. of their real value; but there is no suspicion about the note, is there?—Notes are all expressed in rupees. As the bullion value of the rupee differs from the current value, the suspicion comes there. Our notes are all expressed in rupees. So there is nothing said about the notes.

8500. That is undoubtedly true; but I do not think it quite overcomes my difficulty, which is, if people really dislike accepting anything at less than its real value, that is its intrinsic value, why don't they object to accepting the notes just as they object to accepting the rupee?—If they convert the notes, they would be given rupees which are exactly 50 per cent. of their value.

8501. But you say they object to the rupee?—Yes, because its intrinsic value is not equal to the current value.

8502. You agree that people do accept notes freely?—They do accept notes; that is what we have already said in our note, that one rupee notes can be introduced. There is no question about the notes; but it is the question about the convertibility into the coin.

8503. As regards its intrinsic value, you rightly say that the note is convertible into the rupee. Then the note is really on no better footing as regards intrinsic value than the rupee, is it?—But there it depends upon the confidence of the people. When they want to exchange the notes they would get the value of the note which it represents.

8504. It is rather difficult, because you say they have no confidence in the rupee but they have got confidence in the note because it is convertible, which seems strange, does it not?—As it is it is more convenient to convey notes in large amounts.

8505. As a matter of fact does it not really indicate that if one is to look for the basis of confidence in a token coin of any sort, one must look to something else rather than the intrinsic value of the token. That is quite a misjudged basis as an estimate of the confidence which the token inspires?—I do not quite understand it.

8506. Let me put the question in another form. Is not what inspires confidence in a token coin not its intrinsic value but the certainty that its value in relation to gold will be stable?—What we here want to say is this: that when the standard *de jure* and the standard *de facto* are the same people would become confident that they are handling the thing which it actually represents; and in the case of these token rupees etc., they naturally say that the rupee circulates for 16 annas though when they sell it in the bazaar they would get 9 or 10 annas at the most.

8507. What do you mean by a standard *de jure* or a standard *de facto*?—Standard *de jure*, it is a legal standard; it can be paid in liquidation of debts to any amount; and *de facto*, in fact the rupee is worth only 9 as. if it is sold as bullion.

8508. Then I understand that you do adhere to the opinion that it is of essential importance for a currency that the actual coin or medium of circulation should never differ in its intrinsic and its extrinsic value?—That is it.

8509. Then really, Mr. Banthiya, what is to be said about the note circulation of the world?—The note circulation has got a backing and they are convertible into the standard coin. There is the confidence that whenever they want they could get the coin.

8510. Precisely. What you must, in fact, regard is not the difference in the intrinsic and extrinsic value of the actual circulating medium but the circumstance whether it is convertible with certainty into gold?—That is all right. But at the same time the masses who are illiterate do not know all these things; they only weigh the coin they handle.

8511. In paragraph 5 you say: "To succeed for any long time in maintaining a currency whose legal and real values are so widely different is tantamount to gambling on the ignorance of the people; but since India is becoming more enlightened every day, even that ignorance cannot help matters much or long." Are you arguing there against the existence of any token currency at all?—The subsidiary coin will always be token. That cannot be avoided. But when the standard coin is a token coin, in that case, this holds gold.

8512. And your argument is that you can avoid this gambling only by making the token currency, whatever it may be, directly convertible into gold for circulation?—Token currency must only be used for subsidiary coin, not for standard coin. That is what we mean.

8513. What about notes?—Notes will always be convertible into standard coin, that is gold.

8514. You must make your token currency (and a note is a token just as much as anything else) convertible into gold for circulation?—Yes.

8515. Have you considered in this connection the present system of currency in Great Britain?—Yes, I have seen it.

8516. The present system of currency in Great Britain would not be in accordance with your theoretical requirements, would it?—How?

8517. Because the note is not convertible into gold for internal circulation?—That is only for the time being but it was before the War. It was only to get sufficient gold that they have done that. It was suspended during the War.

8518. When you say it is only for the time being, you are expressing no doubt an opinion which you have formed?—That is not an opinion but what I have read about it. I know it is only for the time being because it was not so before the War when notes were convertible for internal circulation also into gold.

8519. I think perhaps we need not go into that as that is a matter upon which we can get more direct evidence. Supposing you had such a currency as that of Great Britain at present, where the note, which is the principal token currency, is convertible under legal obligation not into gold for circulation but into gold for export only, does that not secure the gold value of the unit of internal currency, and thus, in your words, "effect a standard where the legal value and the real value are identical and assured in identity"?—In what part do we say that?

8520. Shall I repeat the question?—Yes, please.

8521. Does not the present system of currency in Great Britain, where the tokens, in our case the notes, are convertible not into gold for internal circulation but into gold for export only, by assuring the gold value of the unit of the token currency effect a system in which, in your own words, "the legal value and the real value of the token currency are identical and are assured in identity"?—Then in that case it will be the same as the gold exchange standard and the people would be handling only rupees, that is the only thing; and the confidence of the masses will not be restored in that case.

8522. I am trying to get a little deeper than that to your own analysis of confidence. You point out that confidence depends upon having the legal and the real values the same, and I was asking you whether, under such a system as our British system, you do not assure that the legal and the real value are the same. What is the opinion of your Association about that?—I do not follow what exactly you want to bring out from that.

8523. You argue here that confidence in a currency depends upon its legal and its real values being the same. I put to you the case of the British currency, where you have the notes convertible into gold not for internal circulation, as you recommend for India, but into gold for export only. I suggest that that assures the gold value of the note, and that by doing so it is in accordance with your requirement that the legal value and the real value should be the same?—It is only for foreign payments in that case but not for internal circulation. The internal coin would be only the rupee. In that case it will not be the same thing as its bullion value, that is, gold.

8524. Now let me ask you a question on paragraph 7. I will come later to what you say about the ratio which you deal with more fully. About half way down you say: "We would, therefore, have at present the 15 rupee mohur. It would offer less attraction for the purposes of absorption." Correct me if I am wrong, but I rather gather from your proposals in this paragraph that you do contemplate that when gold is put into circulation it will at first be absorbed and pass out of circulation. Is that so?—That is not what we mean. We have assumed that there will be some absorption as there is at present in every country. There will be some absorption for industry, for ornaments or whatever it may be. Assuming all that we say that when we establish the gold standard there might be some absorption of these gold mohurs but later on we indicate that it won't exceed, the absorption of sovereigns will diminish the absorption from the retail dealers of gold bullion, one counterbalancing the other.

8525. Later on you attempt, I think, to put an estimate upon the amount?—In paragraph 10 we have done that. The net result would be the same.

8526. Nevertheless, although you are indifferent to this absorption you do propose in this paragraph to try and prevent it, do you not?—Which paragraph?

8527. Paragraph 7. I understand that the purpose of this proposal for a gradually diminishing gold coin is in order to prevent the absorption of gold coin at first. You propose first of all a 15 rupee mohur, and then, when the gold position is firmly secured at 10 rupees, the 5 rupee coin. I understand the purpose of that is to discourage absorption at first?—Yes that is so.

8528. You argue elsewhere that the absorption is a matter of indifference?—Yes.

8529. Of course it might occur to one to ask, why then trouble to take these precautions to prevent it?—No, we have assumed that there will be some demand for gold for ornaments, etc., required by our social customs, and when we have a standard gold coin then instead of buying gold bars they may take these mohurs, etc., for that purpose.

8530. In paragraph 10 you express a very strong opinion that the amount of rupees in hoards in the country is very much less than is sometimes supposed. You say: "The story of the hoards, like that of the rope trick, has been repeated time and again by men who pretend to know things about India." I may say that this is a matter upon which there is some conflict of evidence before the Commission, so that it would be of interest if you could expand your reasons for this opinion, on the basis of the experience gained by your Association in the conduct of its various businesses?—About these hoards?

8531. Yes?—We always come in contact with the cultivators who are very poor, who are half-clad and who do not get even food enough to eat. How then can they hoard all these things? We find on their body, if any at all, only such ornaments as are essential for their home-life. How can they be supposed to hoard. That is the only thing.

8532. Do you come in contact equally with the better-to-do classes, the landowners—(I shall probably get the names wrong if I try to refer to them)—Rajas and Rulers of Native States and so on? Do their affairs come equally within your experience?—Some of our members do come in contact with such persons. That is why we have expressed the opinion that "excepting the Nizam we do not know of any State having any large capital uninvested at its disposal."

8533. What, in your belief, is the active rupee circulation of the country? Have you been able to form any estimate of that? By active rupee circulation I mean the rupees actually passing from hand to hand?—That we have not estimated but in the reports we find that it is 200 crores or something like that.

8534. If the rupees in active circulation were some 200 crores, how do you account for the balance of rupees coined and issued?—There are some in reserve in treasuries, some in the Imperial Bank and other places.

8535. Yes, there are those. Any other occupation for the rupee?—What can it be?

8536. That is just the question, what can it be?—It is only a medium of exchange, it cannot be used for anything else, it cannot be used even as a store of value.

8537. The argument is that if you make all allowance for rupees melted down, rupees in the treasuries and in the reserves, taking even as high a figure as 200 crores for rupees in circulation, there is still a very large number of rupees unaccounted for.

You account for some of them by allowing for leakage across the frontiers, but even when you have made all allowances of that sort you are still left with a large balance, and by some authorities it is asserted that that balanco is held up for the purpose of serving as a store of value by various classes in the country, and, in particular, by the Native States. The estimate which is given to us of the rupees which may be so held up is between 100 and 150 crores. What is the opinion of your Association with regard to that?—The association has not made any estimate of these things. But these rupees cannot serve as a store of value. If it is stored, we can only store it for purchasing some time after; that is all.

8538. I do not quite follow why the rupee cannot be held as a store of value. One may think it is imprudent for the uninstructed to hold the rupeo as a store of value, but why cannot it be held? As a matter of fact cases have come to our knowledge. You yourself refer to the case of the Nizam. What man has done, man can do?—That is true; but our Association has not made any estimate for that; I cannot say.

8539. I do not quite follow your argument in the middle of paragraph 10, where, talking of the possible demand for gold, you point out that for a period of 12 years India has not absorbed more than £60 millions and so on. I do not quite follow what the relevency of these figures is in this connection, because what we are seeking to estimate in this paragraph is what additional demand would result from the free offer of gold in conversion of rupees for currency. If that be so, does it illuminate the matter at all to refer to the amount of gold that has been absorbed for the purpose of ornaments or as a store of value in the past?—We have written this thing to estimate the demand for gold for absorption purposes, and we arrive at this conclusion that there cannot be a greater demand than 45 crores, whether in the shape of gold mohurs or bullion.

8540. Forgive me if I say that I do not quite see the relevency. There are two things to consider, are there not? There is the demand for gold for ornaments and for hoards in order to save up. That is one thing. That, you point out, has been very fully met during the past years, and there is no reason to think, as I understand you to argue, that that would be increased?—Yes.

8541. Now there is another thing, and that is the new demand for gold in substitution for notes and rupees in circulation and for rupees in hoards, and that is quite additional and independent of the demand for ornaments and for the saving of gold in the past or in the future?—No; that will not be the case. When we have a gold standard then whatever gold there will be in hoards or ornaments could be available for the purpose; because people will have confidence that whenever they want gold they can get it from the Government.

8542. Let me ask you about that on the basis of your wide experience. You have pointed out yourself in your memorandum, as so many have pointed out to us, that the principal requirement for gold is by way of ornaments for the endowment of members of the family on marriage and so on. Is there any reason to suppose that gold required for this purpose will be brought for coinage and conversion into currency?—That is exactly so; when they want it for business purposes they would do it.

8543. They can do so now, cannot they?—It cannot be converted into currency.

8544. They can sell the gold to a broker?—The rates differ in the bazaar; they can sell it dearer than they could get currency for it from the Government.

8545. If there was any real need to convert the ornaments into currency now, it is only a question of giving a fraction of the profit to the broker in the bazaar to get currency for them?—It is not so much about ornaments; whatever absorption there be whether for ornaments or for hoarding as it is called, that will be available for currency in case of gold standard.

8546. I want you to try and convince me, if you can (because indeed at the moment I need conviction), that gold which has been absorbed for the purpose of endowing a lady on her marriage in the form of ornaments and so on is ever likely to become available for currency?—There is likelihood in times of need, because people do pawn and do all these things; in that case why should they lose interest and why pay high interest to the sowcar? They could get currency; at present there is no chance of that; it depends upon education; when they get the education they will know the benefits of investment.

8547. Further down in this paragraph you say: "it would not be unreasonable to think, therefore, that when Government would be bound to supply gold coins in exchange for silver notes, people will have more confidence and will not rush to the currency office to get their silver converted into gold." This is, of course, a very important consideration. Is it the opinion of your Association that that increase of confidence and education of the uninstructed people will be brought about by the mere publication of the fact that gold can be had in exchange for silver?—That is exactly the point; this will restore some confidence in the people; and if efforts are made for educating the masses it will help a good deal.

8548. Would it perhaps not be more natural to suppose that, in order to effect this education and increase in confidence, it will be necessary that people should actually to a considerable extent in the first place touch the gold, take it out, and find that they can get it by bringing their rupees to be converted and so on?—Education will help them to invest in profitable channels; that is another thing; but handling of gold always restores confidence in the ignorant public who know only bullion and things like that. When we handle a thing which it actually represents, it is bound to restore confidence in the ignorant mind.

8549. I want to make sure that I understand your answer. It is, then, your opinion that the people would have actually to handle the gold in the first place in order that they may gain this confidence?—They may in the first instance; but the rupee would be in circulation among the masses; that would be exchangeable into gold and so that will restore confidence, that whenever they want gold for any purpose, whatever it may be, they could get it; in that case they are handling actually gold and not the rupee; that is the actual value of the coin in circulation.

8550. If in order to bring about this result of increase of confidence it is necessary, as you now tell me, that the people should actually handle the gold, that means in other words that the rupees will be brought for conversion?—Yes.

8551. And that gold will go into circulation?—Yes.

8552. At the bottom of the page you say: "We think gold Mohurs to the extent of 45 crores of rupees will be quite sufficient to meet the above-mentioned demand." What is the basis of that estimate?—These are the figures which we have taken and approximately we have put it that during the 12 years we have absorbed nearly 90 crores of rupees worth of gold, and even of this a large part was for melting purposes; on this assumption we have taken it at 45 crores, not more than that.

8553. This estimate is the estimate of the gold which will be required for the conversion of the outstanding rupee, is it not?—We are considering the demand for gold for making ornaments and these things. That is the first point: and we say "If we take the figures from the year 1901-02 to 1912-13 we find that during a period of 12 years India did not absorb more than £60,000,000 of sovereigns or an average of £5,000,000 a year. Calculated at Rs. 15 to a sovereign the total absorption comes to rupees 90 crores worth of gold coins or rupees 7½ crores worth

of sovereigns per year. This absorption is not such as to frighten the Government. True that the times have much changed since then. But it should not be forgotten that the Government under the old regimè of the gold exchange standard was not bound to supply sovereigns in exchange for rupees."

8554. Do I understand that you base your estimate of the amount of gold which will be required in order to discharge the obligation to convert rupees into gold on the amount of gold which has been absorbed of late years in the country for the purpose of ornaments and savings?—Yes.

8555. That appears to me to be at first sight an unsound basis, because the two purposes are totally different, as I have put to you already—that the amount required for ornaments and hoards casts no light upon the amount that will be required for the conversion of the silver rupee. Is there anything more that you can say to clear that up?—The gold that our people absorb has been mostly for making ornaments and hoarding purposes. The rupee would be converted only when people want to spend it for gold purposes; and we estimate that for all these purposes it will not exceed more than 45 crores.

8556. Let me put it to you as clearly as I can in order to bring both our minds together. You have had from year to year in the past a requirement for gold for ornaments and for hoards. That requirement will continue in the future?—Yes.

8557. You are adding to that now a fresh requirement for gold for converting outstanding rupees. It appears to me that you have provided us really with no basis for an estimate for that fresh requirement?—That is exactly the thing. By having a gold standard, whatever gold was absorbed by India will come out because the difficulty of getting gold will be removed; people whenever they want gold would get it as desired.

8558. Then your estimate should be this, on your own basis. You estimate first of all the amount that will be required for the conversion of rupees, and you deduct from that the amount that will come out from bangles and hoards. Is that not according to your own basis which you have just now given us?—At the same time there may be some demand for ornaments; that is why we have calculated it roughly as not exceeding 45 crores from previous statistics.

8559. What have you estimated as the amount which would pass into circulation out of various forms of accumulated gold?—We have not made any estimate of that thing; we have only made estimates for the probable absorption of gold or the demand for gold in case the gold standard is established.

8560. It appears to me that, on your own basis, an estimate of the first quantity is essential to an estimate of the second; that is, in order to arrive at your estimate of the amount that would be required under the gold standard, you would have to estimate the amount that would pass into circulation out of hoards. That, I understand, you have not estimated?—No.

8561. Now with regard to one or two details of your calculation. In paragraph 11 you say that we have 90 crores of silver in the reserve out of which you propose selling about 40 crores. Why only 40? Because that is all you want to complete the total of 110 crores?—There would be rupees in circulation as subsidiary coin for small change; we would require rupees and we don't want new rupees to be coined.

8562. What would you do with the other 50 crores of silver in the reserve?—For small change; the notes may be converted into rupees for small change.

8563. You would keep those in the reserve to supply the needs of the country for small change?—Yes, that might be.

8564. How long do you think it would be before the country would absorb 50 crores additional rupees for small change?—That may be—whatever rupee stock might be at present, that may take 20 or 25 years.

8565. In the meanwhile the Government would be losing the value locked up in the 50 crores, whatever the bullion value of that is?—We cannot avoid all these things.

8566. You could avoid it by selling out the whole 90 crores?—In that case what would we do about the small change that we require?

8567. You have rupees being brought for conversion into gold. You agree that there will be some brought?—There will be some brought if they are in the hoards.

8568. So that at first there will be an actual contraction of the rupee circulation?—No. Then gold will come into circulation in substitution for rupees.

8569. That will diminish the demand for rupees?—Yes.

8570. You estimate that that 40 crores will realise 30 crores in gold?—Yes.

8571. Do you think that is a safe estimate if you consider the effect of the dethronement of the rupee from its position as unlimited legal tender and of the actual sales of the 40 crores? Might not that affect the silver market?—That is true, but we have already proposed an import duty on silver and this 40 crores of rupees is to be sold in India. In India the prices, owing to the import duty and the restriction of foreign import altogether, the market won't be depressed in India; and it is not to be sold all at once but by degrees.

8572. What, in your opinion, will be the effect on the public mind of the restoration of the import duty on silver, particularly with a view to the effect of that upon the value of silver ornaments and so on held in the country?—They will appreciate in value with the imposition of the import duty.

8573. You do not think there will be any political difficulty in the restoration of the import duty on silver?—No. Besides it is rather essential to put an import duty in that case.

8574. You delete your suggestion for the introduction of a nickel rupee?—Yes.

8575. I see you only go so far as to say that the depression resulting from the giving up of the policy of minting silver rupees and of selling silver would be counteracted to a considerable extent by imposing an import duty on silver at the rate of 4 annas per ounce. I gather from that that you do not estimate that it would counteract the whole depression?—No. We have supposed the whole of the 40 crores of rupees are to be disposed of in India with the imposition of the import duty by degrees. That won't affect the market in any way, in India specially.

8576. Then you would delete the words "to a considerable extent" in the sentence "we think that the depression could be counteracted to a considerable extent by imposing an import duty on silver at the rate of 4 annas per oz."?—There is no need to delete that. That will be the effect of the import duty. The market won't be depressed as it is feared it will be by the dethronement of silver.

8577. Well, perhaps we may take the words as they stand. Then you delete the words "The Government's decision to stop all silver coinage will always hang like Damocles' sword on the head of the silver market"?—Yes.

8578. You continue to recommend that Government shall stop all silver coinage?—Yes. When we stop silver coinage altogether, that is a fact and not a decision.

8579. That is a fact. Ought I to ask why you deleted those words?—Because that is not the case. When the gold standard is established, silver would not be required for coinage purposes.

8580. But you agree that it will have some effect on the silver market?—That is true.

8581. Perhaps the phrase "will always hang like Damocles' sword" is too picturesquely violent?—The sword is already hanging. But once Government decides.

8582. I see. Now I understand. It is because this is a single act and the effect of it will not continue.

Then you say: "All the same, we think that India would rather face this loss (*i.e.*, from silver sales) than tolerate the constant invisible taxation imposed upon it by a debased currency." Why is it constant? Let us follow it out. The profits from issuing rupees go into the gold standard reserve?—Yes.

8583. That is, we might agree, an asset of some value?—Yes.

8584. That is something to set against the invisible taxation?—Yes.

8585. When, as at present, the gold standard reserve is considered to be sufficiently large, then the interest on the reserve and presumably fresh profits would go to the relief of revenue, would they not?—But the gold standard reserve and all these things.

8586. I am just questioning the word "constant." The point is this that, admitting that the issue of a token currency may be called an invisible taxation, or rather I should prefer to put it a forced loan from the people, are there not, as a matter of fact, countervailing entries on the other side of the account in the form of relief to revenue enuring for the reduction of taxation or at any rate the prevention of its increase?—But that has not been the case.

8587. Is it not the case now that the interest on the gold standard reserve goes to the budget?—It is being utilised for *ad hoc* securities, created securities of the paper currency reserve.

8588. But do you not recognise the circumstance that the payment of the interest on the gold standard reserve into the general revenues of the country counterbalances the invisible taxation of the issue of the rupee?—It does not.

8589. At the end of paragraph 11 you say: "We have indicated how the gold standard reserve and the gold and sterling securities portion of the paper currency reserve might be made to yield us a supply of about 82 crores out of this"?—We explain at the beginning of this paragraph. "We have first of all the gold standard reserve which contains £40 millions gold, or converted at 1s. 4d. exchange 60 crores of rupees." And then there comes in the paper currency reserve. We have got sterling securities of 57·11 crores which converted at the rate of 1s. 4d. would give us an extra 21·66. That amounts to 82 crores, both these things.

8590. What you have got to supply, according to your own calculations, is 45 crores of gold to replace 45 crores of rupees in absorption?—Yes, 45 crores of rupees in absorption.

8591. And you propose in effect to get that out of the present reserves?—Yes, by calculating them at 1s. 4d.

8592. My difficulty there is this. The present reserves are held for the purpose of maintaining the internal and external convertibility of the token currency of the country in its two forms, notes and rupees, and they are no more adequate for that purpose. In future the reserves will have to serve both that purpose and the purpose of securing the convertibility of rupees into gold. How can reserves, diminished, as you propose to diminish them, fulfil not only their present liabilities but also the additional liability? Would it not seem more natural that you would have to increase your reserves rather than diminish them?—No, that won't be the case. When fresh rupee coinage is stopped, the present stock of rupees will be absorbed for subsidiary coinage and there will be this reserve which will be sufficient for our convertibility.

8593. It seems almost too good to be true that, by accepting an additional liability, that is the liability of the conversion of rupees into gold, you are enabled actually to reduce your reserves?—That won't be the case. Rupees will remain in circulation and they will be absorved as subsidiary coinage. There will be no fresh demand for gold in that case.

8594. But you are allowing, are you not, for a fresh demand of 45 crores?—That is we annually import gold as a favourable trade balance. And so long as there is a favourable trade balance we will import gold. And that fresh gold would also help the absorption demand and all those things.

8595. Undoubtedly the normal imports of gold will continue, and I suppose the normal demands for gold for the purpose of ornaments and so on will continue?—Yes, that will be so, but there will be no extra demand for gold for establishing a gold standard.

8596. You do not feel any difficulty about this result that, concurrently with the acceptance of a fresh liability, you are reducing your existing reserves?—We are not reducing, we are simply strengthening the paper currency reserve for its conversion.

8597. But you are allowing for the passage of 45 crores out of the reserve, and you are going to get that from the existing reserves: is not that so?—We have indicated here on page 7 that of the 110 crores that we have put in the paper currency reserve 65 crores will be from the old reserve that we have got at the valuation of 1s. 4d. and only 15 crores are to be brought from the gold standard reserve—the remaining would remain as a reserve for the conversion of the rupees, whatever they may be.

8598. The balance would remain, but it would be a smaller balance?—Yes.

8599. That is the point, that the balance would be a smaller one which would remain to fulfil the existing purposes for which the reserves are held?—At present we have 40 millions of gold in the gold standard reserve, and then we will have 45 crores of rupees worth of gold in the gold standard reserve at the new valuation of 1s. 4d.

8600. You further come to the conclusion in paragraph 18 that you do not think "any extra requirement of gold for the purpose of establishing a gold standard with a gold currency would be so big as to cause any appreciable effect on the world prices." That is on the basis that you can get all the gold you want out of the existing reserves?—Yes.

8601. May I put to you a supposition, which is not that of your memorandum, that an appreciable additional quantity of gold would be required to undertake this fresh obligation of converting the rupee into gold?—There is in fact no need for such a supposition.

8602. But I am putting it to you as a supposition just to see whether I can get your opinion as representing a body of traders whose business it is to watch the course of gold prices and so on. Let me put to you a further supposition, that the amount would be very substantial, that it would be as much even as 100 million sterling of gold. What, in your opinion, would be the effect upon gold prices of an additional requirement for India of gold to about that amount?—There cannot be any additional requirement. We have got a favourable trade balance. That must be liquidated in international money that we will accept as a gold standard, so there will be no extra demand. Our favourable trade balance must be liquidated by those who purchase our commodities. As far as the convertibility of our rupee is concerned we have already got sufficient gold in the reserve.

8603. You would rather not, in fact, make the supposition at all?—Not at all.

8604. Or follow out its consequences?—Yes.

8605. With regard to the answer you have just given me that you can get all the gold you want because India has a favourable balance of trade, that favourable balance of trade is settled at present partly by the home payments, partly by the importation of gold which is required for the uses of the people for ornaments and so on, and I think we have come to the conclusion that that require-

ment is likely to continue?—The present importation of gold will go into currency purposes also.

8606. You assume, then, that the requirements of gold for the uses of the people for ornaments and so on will cease?—Yes, they will diminish as time goes on.

8607. Is that a safe supposition?—Yes, it is; as the masses become educated, that is bound to increase; social customs are changing every day. It depends upon the progress that we make in education.

8608. For how many centuries has that requirement of the Indian people for gold continued in the past?—That cannot be said. They can be revolutionized very early if people get chances of education; every community has now organizations to discourage all these things.

8609. Do you think this process of education, by which people will get cured of their thirst for gold, will be a swift one?—Yes, that is bound to be.

8610. You think it will be a swift one?—That I cannot say, but so far as it seems to me from the present progress, it is bound to be.

8611. Do you think it would be safe to base any estimate as regards a matter of such vital importance as currency policy upon the assumption that the people of India will be rapidly educated to no longer requiring gold for the purposes for which they required it in the past, for ornaments and so on?—We cannot say anything about the period, what time it will take, but as we see from the present progress and from our bank balances, the bank deposits are increasing, and they are a sufficient indication that people are getting accustomed to investment.

8612. Might not a critic turn round at this point and say: if it is the case that the people are being educated in the habit of investment at the encouraging rate to which you refer, why is it necessary to undertake what is admittedly an expensive policy as regards gold circulation if the process is already going on. What need is there to incur further expense in order to hasten the process?—There is no further expense. We simply want our currency to be put on a sound basis, that is all.

8613. I rather understood from your memorandum, as when you say that India would rather face this loss, the loss from silver sales, that you do assume that there would be expense in the process?—But that loss is only for the sake of putting our currency policy on a sound basis, and that, no nation can grudge, if it desires to put its currency on a sound basis for the future.

8614. But a loss is a loss, for whatever purpose it is incurred. A critic might put it against you at this point: why, if the people are already learning the habit of investment and doing without gold, should you incur a further loss for the sake of establishing a fresh educative method, that of the circulation of gold?—This loss we cannot avoid if we want to put ourselves on a sound basis, and that cannot be large.

8615. In paragraph 18 you say: "We think therefore that when exchange is brought back to 1s. 4d. gold and the price of gold has risen again to Rs. 24 per tola, a good quantity of gold could be purchased even in this country." What would it be purchased with? What would they buy the gold with?—It is only for the augmentation of currency that the gold will be required; people who want more currency for the trade demand would tender that gold and get currency for it.

8616. They would buy the gold with rupees; they would redeem the rupee with gold?—Yes.

8617. When they bought gold with the rupees, there would be more rupees outstanding, which there would be a liability to redeem in gold?—Yes.

8618. That would not improve matters, would it?—The gold that we have got in the country owing to these low prices, that will come back when it reaches Rs. 24 per tola.

8619. Then you say a little further down: "Regarding the decrease of revenue caused by the loss of seigniorage and interest on the extra capital required for purchasing gold and such other incidental items." "Purchasing gold" seems to me to imply some different arrangement. Does this imply that capital will have to be borrowed in order to buy the gold?—No.

8620. What does "interest on the extra capital required for purchasing gold" mean? That seems to indicate that you contemplate borrowing to buy gold?—That is not exactly the point that we want to make. As we have already indicated, there will be no fresh demand, there will be no need of buying gold, but supposing there is any, then in that case the loss of interest we must bear.

8621. You are then contemplating in this passage that the Government will have to borrow somewhere?—That is a farfetched assumption.

8622. I am afraid you do not quite agree with this passage in the memorandum, do you?—That is true. We suppose that there will be no fresh purchase of gold required, but supposing that is essential then in that case it will be a very small amount.

8623. Now we come to the question of the ratio. I think you say that any other ratio than 15 to 1 would be a deliberate violation of old contracts. What would you say in reply to a critic who said that any other ratio than the existing ratio of 1s. 6d. would be a deliberate violation of new contracts?—People knew very well that 1s. 4d. was the stable rate, and it had ruled for the last quarter of a century and that people were trying in the Assembly to put the old ratio on the Statute Book. 1s. 6d. was not on the Statute Book. How could they take it for granted that this will be maintained.

8624. You think, in fact, that everybody ought to have agreed with your Association that 1s. 4d. was the right rate, and they ought to have done, what,—to have abstained from making contracts?—That is not the thing.

8625. Or to have insured themselves against loss in consequence of the prevalence of the 1s. 6s. rate until it was restored to 1s. 4d.?—That is not the point. It is only with regard to the argument about 1s. 6d. that the contracts entered into will be vitiated in that case, we say that there was no reason to put this argument altogether. We will say that there was no reason to put this argument. People based their contracts at 1s. 4d. for the last 25 years and that must be the proper argument in favour of 1s. 4d. rather than 1s. 6d. because it is a question of a short period, for the last year and a half.

8626. Since the 1s. 4d. rate existed after the war, many rates have been prevailing, have they not? Recently 1s. 6d. has prevailed. During that time the business of the country has had to be conducted, and contracts have had to be entered into, at varying rates, lately the 1s. 6d. rate? Is it the intention of your Association that no regard at all should be paid to the interest involved in those contracts made at rates other than 1s. 4d.?—We have looked to the stable rate that has ruled These temporary rates cannot be taken as a basis for fixing the ratio.

8627. In paragraph 23 you say: "The reason why we are for the 1s. 4d. rate to-day is that, however unreasonable it might have been in the beginning to adopt such a high rate, when once it was adopted and placed upon the Statute Book it became henceforth a rate which could never be altered except for the gravest of reasons." If that argument is sound, is it not really an argument for the 2s. rate, because the 2s. rate has been adopted and placed upon the Statute Book?—Now this related to the quotation that is given from the Fowler Committee's Report. At that time 1s. 3d. was the ruling rate and 1s. 4d. was only a temporary rate on which the whole Statute was changed.

8628. But if this argument is soundly and sufficienly stated, does it not now apply, with more

force to the 2s. rate than the 1s. 4d. rate, because the 2s. rate has been adopted since the 1s. 4d. rate and has also been placed upon the Statute Book?—It has been placed upon the Statute Book but the market rate has always been much below that rate.

8629. Then you say that this argument must be abandoned, and that we must look at the market rate and not the rate which is adopted and placed upon the Statute Book?—That is, we must look for a rate that has ruled for a considerable time and we must fix that rate; that is my opinion.

8630. If we are to look at the market rate and not the rate adopted and placed upon the Statute Book, will that argument not really support the rate of 1s. 6d. which is now the market rate?—This present rate has been brought about by a deflation of currency.

8631. So was the 1s. 4d. rate, according to your own argument?—No; that has ruled for 25 years without any manipulations.

8632. So that really we must abandon this argument here and come back to your original argument that the 1s. 4d. rate should be adopted because it ruled for a long time?—Yes, that it is.

8633. In paragraph 24 your Association says: "But it is noteworthy that even four good monsoons in succession have added nothing to the purchasing power of the people. The reason of this has to be found in the appreciated exchange. The agriculturist could not obtain the price for his produce which he could otherwise have done." Might your critic not say: "true the agriculturist obtained a smaller price for his produce, but equally the man who was selling to the agriculturist all that the agriculturist buys, cotton cloth and so on, could not obtain the same price for his produce from the agriculturist?" In short, the agriculturist, although he got less for what he sold, paid less for what he bought, and therefore his purchasing power was the same as before?—No; that is not the thing. The agriculturist has to pay interest to the sowcar, has to pay land revenue and so on which are all fixed in rupees, while he gets less rupees for his produce. So he saves less.

8634. That is another consideration. How would you meet the contention that, as regards that portion of his income which he used for the purchase of goods, the purchasing power of his income was increased by the rise in the rupee?—The purchasing power depends upon the savings. When the savings are less, how can the purchasing power increase?

8635. The purchasing power depends upon the amount saved and also upon the real value of that amount. If the real value of that amount is increased, then there is a benefit, is there not?—Yes; but the commodity value of the rupee is so much lower.

8636. Precisely. In the same paragraph you say: "As is well known, the trade balance is generally in favour of India, and under the circumstances to force her to part with her surplus produce at cheaper rates cannot certainly be in her interest." That means that she gets less for her exports?—Yes, it is exactly so.

8637. Following out this line of thought, does it not also mean that she pays less for her imports?—But the consumption of imports, that is, cloth for instance, is much less. He consumes the local produce, local cloth and all these things. The import of foreign cloth is only of finer counts, which is consumed by the richer classes. The cultivator has to do with the coarser cloth which is mainly Indian.

8638. Is it then the opinion of your Association that the price of imported goods, such as cotton cloth, has no effect at all upon the price of goods, such as cotton cloth produced and consumed in India?—Yes, it has some effect, but not to that extent so far as the cultivator is concerned. It is immaterial to him. He has to look to the price of the cotton cloth which is available here, that is, the local produce.

8639. Finally, does the general fall in prices not affect goods produced and consumed in India as much as imported goods?—It does.

8640. After a period of adjustment?—It does; but they cannot be adjusted all at once. Here for instance, cotton industry has gone down; our prices here have not gone down as the foreign goods' prices.

8641. Can you give me any figures of the relative fall in the price of cotton goods, manufactured and consumed in India, in comparison with the nearest class of imported cotton goods?—That I am sorry I cannot give at present.

8642. Those are the figures necessary to support your later contention, are they not?—I cannot give them at present.

8643. Has your Association considered those figures?—That is the general impression with regard to the experience that they have of the agriculturists with whom they come into contact every now and then.

8644. Your opinion is based upon a general impression?—Yes, upon personal experience of members.

8645. Lower down in this paragraph, when dealing with the question of the effect of a reduction upon the national budget and Home Charges, you say: "Those who advocate 1s. 6d. on the ground that it will lighten the burden of Home Charges might well be asked as to who is it that pays the Home Charges. Is it not the producer." I suppose it is rather the tax-payer, is it not?—It is the producer.

8646. One cannot locate one source of revenue rather than another. It is the tax-payer in general?—But the land revenue is the maximum amount of tax.

8647. "Is it not the producer who maintains India's favourable balance of trade and enables the Government to redeem its liabilities every year from the money realised in foreign countries in exchange for his produce? And it is he who has to accept as a result of a higher exchange so many fewer rupees for the produce he has to sell." Now let us turn to the other side of the picture. Supposing the exchange value of the rupee is reduced, that will mean an additional burden in respect of the Home Charges, will it not?—Yes.

8648. We have had an estimate in evidence that the burden resulting from a fall from 1s. 6d. to 1s. 4d. would be 3 crores. Do you agree with that estimate?—That might be; it used to be met before the war, when it was at 1s. 4d.

8649. At any rate you may take the estimate from me that three crores additional would have to be found to meet the Home Charges. That would have to be found by the tax-payer, would it not?—For the sake of three crores.

8650. Shall we deal with the question, that an additional three crores would have to be found by the tax-payer, would it not?—Yes.

8651. As you told us, the producer is the principal tax-payer?—Yes.

8652. So that that will be an additional burden of 3 crores falling mostly on the producer?—I cannot say anything about the financial Budget and other things as to how they are adjusted or made. When in pre-war times the rate was 1s. 4d. and they used to make them at that rate I do not see why it would now require that finish taxation; but I have not studied these things, and cannot give any opinion.

8653. In paragraph 26 you say: "The 1s. 4d. exchange by raising the price of gold in this country would be inducing its present holders to release large supplies on the market and enable the Government to effect its purchases without being inconvenienced by short supplies." Can you

enlighten us as to whether there are, in fact, large supplies of gold in the hands of dealers of various classes which might be thus released?—In paragraph 17 we have already indicated that there have been huge imports of gold during the last 5 years or so.

8654. The question is whether there are large supplies actually in the hands of dealers which might be released on the market?—By this we mean that whatever we have imported and that has not gone into circulation as it ought to have been at the old rate will come on.

8655. As a matter of fact, perhaps you can tell us, from the aquaintance of the members of your Association with this class of business, whether there are or are not big supplies of gold in the hands of dealers which have not yet found their way to the purchaser?—How can there be? They are not going to lose their interest on that.

8656. To your knowledge there are no such supplies?—No.

8657. (*Chairman.*) That completes the questions which I have to ask you. Perhaps, Mr. Banthiya, you will be so kind as to deal with any supplementary questions which my colleagues may have to ask you.

8658. (*Sir Reginald Mant.*) Mr. Banthiya, it appears from your memorandum that the main reason why your Association recommend a gold standard with a gold currency is because what you call the exchange standard lends itself to manipulation?—Yes.

8659. Supposing it were possible to deviso means for preventing any such manipulation by perfecting a gold exchange standard would that objection fall to the ground?—No. We want that tho system may be made automatic, that is to say, anyone who needs currency should get what he wants.

8660. Yes. If the system could be made automatic without the introduction of a gold currency, would you dispense with your recommendations for a gold currency?—No, a gold currency is essential for that system because people are only concerned with the coin in circulation, what they get.

8661. I was asking you for a moment to assume that a gold currency was not necessary to secure the automatic system which you desire; if you will assume that for a moment?—But how can that be possible in that case.

8662. Your reply is that——?—It is an essential thing.

8663. That you are unablo to make that assumption?—Yes it is essential to have a gold currency.

8664. Would you say that the system in force in England at present is subject to manipulation and to the objections which you have raised here?—It was during the War period. It is only now that they have put the thing on this basis, making it a moral obligation that people must use as far as possible notes and not gold coin. That is with regard to a population which is far more educated than we have in India.

8665. Do you consider that the system at present in force in England is subject to manipulation?—It is only temporary. It was during the War.

8666. I am asking whether it is now?—That I cannot say. I have not studied the system

8667. You are not aquainted with the system in force in England?—No.

8668. Now you have pointed out in paragraph 18 that large quantities of gold have recently been imported by Indian speculators in expectation of realising higher prices later on, and you say that India has imported more gold than she could possibly consume. You said in reply to the Chairman that the dealers are not holding that gold. Well, can you tell us who are holding it? What people are holding that gold?—Well it might be somewhere upcountry. We cannot say who are holding the gold. But please remember that during the war period people could not get gold and the large imports that have taken place during the past 3 years have been due to that restriction.

8669. But you say India has imported more than she can consume, more than people are prepared to buy?—Yes.

8670. Well it must have stuck somewhere; somebody must be "left with the baby" as they say; somebody must have that gold?—That might be so; we cannot say who has got the gold; it might be upcountry.

8671. It has passed out of the hands of the dealers?—Out of the hands of the dealers.

8672. With whom you are aquainted?—Yes it is not in the hands of the dealers.

8673. Then presumably there are stocks of gold in the hands of local goldsmiths in all the bazaars?—That cannot be much, I mean with goldsmiths in the bazaars.

8674. Well on your own showing there is a lot of surplus gold in the country?—The goldsmiths have gold only for making ornaments, whatever they may be.

8675. But what class of people have your dealers sold it to?—From here we send it upcountry. In upcountry it is sold in parts, one tola or two tolas at a time and in that way it is purchased by the masses; it is not sold in lump quantities there. It is sold in retail quantities of one tola, two tolas or half a tola.

8676. But what class of poople upcountry have your dealers sold it to?—Retail dealers.

8677. Well presumably anybody who wants gold now can buy it because on your own showing there is really a surplus of gold in the country. Anybody can get gold who wants it?—Yes.

8678. Why do you say that it is necessary in order to secure confidence for Government to undertake an obligation to supply gold. If anybody who wants gold can buy it surely that should be sufficient to give confidence to people who think they may want to purchase gold?—That is quite different from what we say. When we make it obligatory on the Government to pay gold in exchange for currency, that is different from buying it in the bazaar because a person may not be able to get it at the price that he wants; but here there is nothing of price; it is a fixed thing. He thinks that whatever he has got in money that is all gold and whenever he wants gold he can get it. But here the rupee he has got to purchase gold with, is not the same as gold.

8679. I do not follow that "the rupees he has to purchase gold with is not the same as gold?"—I mean to say if he has to buy gold from the retailers or whatever source it might be he has to pay rupees but when we make our rupees convertible into gold or say we adopt the gold standard, then in that case he thinks that what rupees he has got that is all gold; when he wants gold he will go to the Government and demand gold and get it, rupees or notes or whatever it may be.

8680. But he can get it now in the bazaar?—Yes but the price fluctuates, as in War time he had to pay 34 and now he gets only 21.

8681. Well he can buy it for Rs. 21?—But he paid Rs. 34 and now he gets only 21; that is nearly half the price, a loss of 50 per cent.

8682. Your point is then that if Government undertake the obligation the price of gold would be stabilised?—Would be fixed, yes.

8683. Now I want to ask you a few questions about your proposal to sell 40 crores of silver. You expect to realise 30 crores for it, is it not?—Yes.

8684. That is Rs. 75 per hundred tolas. Can you tell us what is the present price of silver?—71 or 72; approximately 71, I do not know exactly.

8685. Don't you anticipate that putting such a large quantity of silver on the market will reduce the world price of silver?—It will have an effect on the world price of silver.

8686. And you expect to get Rs. 75 a hundred tolas by means of this 4 anna duty?—Yes that will enhance the price by Rs. 10, this 4 anna duty.

8687. Rs. 10 a hundred tolas?—Yes.

8688. And by exchange?—It will be also Rs. 10, something like Rs. 10 or 12, an increase of Rs. 10 per hundred tolas approximately.

8689. The present price is Rs. 71 you said; so you really expect world prices to be reduced only by Rs. 20 per hundred tolas. Isn't that what it comes to? The present price is 71. You would add 20 on account of the duty and the exchange. You expect to realise 75. Therefore you anticipate that the world price will be reduced by Rs. 16 per hundred tolas?—Yes it might be that, we cannot say exactly, but we anticipate that if we sell silver slowly in India in that case we could realise that amount.

8690. But you propose to sell the whole amount in three years, do you not?—Three or four years; that is our idea; we estimate that we will be able to realise Rs. per hundred tolas.

8691. You would maintain the duty of four annas during those three or four years?—I would maintain that for all time.

8692. In paragraph 26 you say that the reversion to 1s. 4d. would have the additional advantage of averting a considerable loss in the selling of silver stock. Can you explain how reducing the value of the rupee will avoid loss in the sale of silver?—This silver has to be sold in India; by the imposition of an import duty we will bring the price up by ten rupees.

8693. Leave out the import duty for the present?—This rate of 1s. 4d. would increase the price by 12½ per cent. from the present rate of 1s. 6d.

8694. But it will increase it in depreciated rupees?—The price realised for the silver will be greater.

8695. Only the rupee price?—The world price in the world market would also be more.

8696. That is what I cannot understand, how you get more, a bigger price in the world market by reducing the value of your rupee?—At present the rate for silver is say, 31d. If we sell silver in the London Market at 31d. we get a certain amount of rupees at the rate of 1s. 6d.; and if we sell at the same rate, but convert the rupee at 1s. 4d. naturally you would get more rupees.

8697. But the purchasing power of those rupees would be no greater?—Here we are not concerned with that; we are only concerned with the gold value of the rupee and if we fix the rate at 1s. 4d. we get more gold than at 1s. 6d.

8698. Who will sell you more gold for your rupee?—At 1s. 4d. the rupee would be worth more gold than at 1s. 6d.; we sell silver at the present rate in the London Market at 31d., and that is to be converted into our standard coin which we suppose to be a rupee of gold; at 1s. 6d. we would get some amount of rupees and at 1s. 4d. you would get 12½ per cent. more than that.

8699. You would get more rupees, but you said just now that you would get more gold?—We are taking the rupee as representing gold if we adopt the gold standard.

8700. (*Sir Reginald Mant.*) I am afraid I am unable to follow you: I do not think I will trouble you any further on that point.

8701. (*Mr. Preston.*) Mr. Banthiya, you told me Chairman early in your examination that you had personal knowledge of the life and habits of the agriculturists of India?—Yes.

8702. I suppose in their daily life their purchases of food-stuffs are quite small. You also described them as being very poor people and ill-fed, and in paragraph 10, by way, I suppose, of emphasising your knowledge, the statement is made: "The fact that in India most of the business transacted is in very small amounts should be a sufficient guarantee against undue absorption of the gold coin." Could you give us any idea of what, from your personal knowledge of the life of these people, you would put down as the weekly expenditure, say of a family of five, a father and mother and three children?—Say 25 rupees a month or roughly twelve annas a day.

8703. Say a rupee a day: that would cover their food-stuffs and such clothing as they wanted?—It would.

8704. I suppose these people live, as it has been described to us, in lakhs of villages and thousands of towns, spread generally over the country, and at the outside a rate of a rupee a day would cover them in all their household expenditure?—Yes.

8705. Therefore, taking an expenditure of that nature it would hardly be possible, would it, to invent a gold coin of any denomination which would be of any value to them for their needs?—This gold coin does not depend upon the poverty or anything of that sort.

8706. It would not appeal to those people or in other words for general utility purposes a gold coin would be practically useless to them?—It may be useless, but we want a gold coin to make our currency system stable.

8707. I shall come afterwards to that; let me find this out first; I am trying to follow out the statement you make here, and as you have been good enough to tell us what from your personal knowledge constitutes the daily expenditure for a family of five, it naturally follows that, taking it at a rupee a day, a gold coin for all general utility purposes would be useless?—Yes.

8708. Then in paragraph 6 you say: "We want a gold currency, that is the gold coin, as the visible symbol of a gold standard." It is a mere sentimental matter? It is only a symbol? The fact that you have got a gold coin and you can either put it in a case or keep it in a village so that the people can see it and say "here is a gold coin; you are not going to us it because it is of no value to you, but there it exists and it forms part and parcel of our gold standard." Previous to this you say "We advocate a gold currency not because we want the gold coins to take the place of notes or rupees—we would have as much gold as possible in the treasury rather than in the pockets of the people": so that really speaking, whilst your argument may be that the natural corollary to a gold standard is a gold currency it may be an equal argument to prove that a gold currency which you yourself have admitted in so far as the agriculturist of India is concerned, who forms 70 per cent. of the population, would be quite useless?—Yes, they may not use that gold coin.

8709. Another point: you say in paragraph 18: "We do not think that any extra requirement of gold for the purposes of establishing a gold standard with a gold currency would be so big as to cause any appreciable effect on the world's prices." Then you later on give us a statement of how you are going to convert such of the reserves as we have got now into gold for the purpose of providing the necessary gold for the backing of our notes. You are aware that the gold standard reserve and the paper currency reserve, the sterling portion of it, are both invested in England?—Yes.

8710 Therefore the first step would be to sell those securities?—They are short term securities; they will mature soon.

8711. They have got to be sold all the same?—We do not want them to be converted into gold all at once; by and by as they mature they will be turned into gold.

8712. Yes; but some of them acccording to the statement are for over three years; you allow for three years only?—Three or five years or whatever it may be.

8713. You go further than that, five years if necessary?—Yes.

8714. Or a little longer if it was really necessary?—Yes.

8715. You would go up to whatever period may be necessary?—No, not whatever period; we say three years; if three is not sufficient, say five years.

8716. Supposing some of the securities we have run for eight or ten years, then you would be willing to wait for eight or ten years rather than go and upset the security market by forced sale of these securities?—That is not so; we will have all gold securities in the paper currency reserve; those securities which do not mature even within these three or four years or during the transition period may be transferred to the security portion that we will always keep in the paper currency reserve; there is no need for a forced sale.

8717. You do not want to convert all your securities into gold?—As they mature.

8718. They will naturally go into gold funds as they mature?—Yes.

8719. Then when they go into gold funds, out of your gold funds you have got to acquire gold?—We get gold out of it as the sterling securities mature; we get gold in payment for them.

8720. Ultimately when you turn the gold funds you have received as the equivalent of the sale of your securities, you will turn these gold funds into gold; but have you also thought that in the process of turning those gold funds into gold (the amount in the gold standard reserve is 40 millions and the paper currency reserve is over 20 millions, making a total of between 60 and 70 millions altogether), have you thought what the result of shipping 60 to 70 millions of gold from London would have on the world's interest markets in forcing rates of interest up and thereby forcing sterling prices down and in its result affecting all your prices here in India?—That is not the exact point here. We have already said here "We would suggest to Government to follow up their announcement by offering to buy unlimited quantities of gold first at 1s. 6d. and then at successively lower rates until the old rate of 1s. 4$\frac{3}{16}$d. has been reached." This does away with all this fear.

8721. You have first to sell your securities, then when you get funds in the bank, then you turn your funds into gold and then you ship it out to India; but if you are going to ship 60 to 70 millions of gold you are naturally going to force up interest rates?—But they are not to mature all at once.

8722. Let us extend them over a period; what I want to get at is, are you prepared—to pay for the expenses, to stand all the consequences which such an action might bring about in order to gain your end?—What other consequences can there be?

8723. The effect on ultimate prices in India?—What?

8724. What do you think, if gold prices are forced down by an appreciation in the interest rates, would that not have an effect on your prices in India?—No; in fact we will have stable prices by having a gold standard.

8725. If world prices are forced down by an increase in interest rates, it would not have any effect on prices in India?—It will have; Indian prices cannot remain unaffected.

8726. And they could not be stable? They would fall?—But the effect would not be much because there would be no extra demand for gold.

8727. But you are quite prepared to stand such consequences?—We must for the sake of soundness of currency.

8728. For gaining your end?—Yes.

8729. (*Sir Alexander Murray.*) I think you said to the Chairman and to Sir Reginald Mant that the dealers in India were not holding much gold, nor were the goldsmiths. Now you make the statement here in paragraph 18 that "we think in fact that recently India has imported more gold than she could possibly consume." And then you say: "It was not surprising if Indian speculators imported huge quantities of gold in expectation of realising higher prices later on." And you say lower down, that Government's purchases can be made in India. I think you replied to that effect to Mr. Preston just now. Well, how is Government going to purchase that gold if it is not in the hands of the dealers and not in the hands of the goldsmiths. Where is it to come from?—From the country. Those who have purchased this gold from the dealers will tender it, as we got sovereigns and francs during the war period on the declaration of Government's policy.

8730. In the meantime, in what form is the gold being held? In bullion, in bars, or as ornaments?—That we can't say. It may be in bullion or in ornaments or in sovereigns even because sovereigns too were imported.

8731. Do you believe that speculators have bought a lot of gold lately with a view to realising it later on? I see in paragraph 26 you say that "a 1s. 4d. exchange by raising the price of gold in this country would be inducing its present holders to release large supplies on the market."—Yes.

8732. Well, you say in one place that speculators have bought and you say that if exchange should drop to 1s. 4d. a great quantity will be released. So presumably speculators are holding gold with a view to realising profits when exchange drops to 1s. 4d.?—What we mean is that this cheaper rate induced larger purchases of gold from outside, and if the rate was further reduced in that case they would have imported more gold. Because there was no other means. This gold imported could not have been converted into coin. It remained there and when the gold standard is established at 1s. 4d. in that case this gold will naturally come out.

8733. Then you suggest lower down in paragraph 27 that Government should begin buying unlimited quantities of gold at 1s. 6d., right down to 1s. 4$\frac{3}{16}$d. Do you think these speculators will take to selling at 1s. 6d. if they know that Government will ultimately come to 1s. 4d.?—Government should fix the value only for the present. It should express its willingness to purchase at a certain value just now. If people know this the price won't be increased.

8734. But if you tell them that it is going to come to 1s. 4$\frac{3}{16}$d., that will increase the price?—But it will not be known to them by what time it will come. When people know that they can convert their gold into currency in that case they would naturally convert it. Because there will be no other means for supplementing currency.

8735. No, but you say Government should buy unlimited quantities of gold?—Buy for purposes of currency, not for storing.

8736. One other thing. You say here, the Chairman has already referred to it, in paragraph 24, that "even four good monsoons in succession have added nothing to the purchasing power of the people." But a great lot of more money has come into India as a result of these four good monsoons. For instance the pre-war average of exports of Indian merchandise only totalled 219 crores. During the war, when prices were high, they only averaged 216 crores per annum. Well, in 1922-23 there were 299 crores worth exported; in 1923-24 there were 349 crores worth exported; in 1924-25 there were 385 crores worth exported. Even allowing that prices are on a higher level than they were in the pre-war days, people in India are getting far more money paid for their goods than they were getting in the pre-war days?—No. But we have to consider the commodity value of the money that they get.

8737. But the commodity value today is relatively higher than it was before?—But we are getting less commodity for our rupee at present.

8738. Yes, but you are getting very much more rupees. You are getting 385 crores of rupees today when in the pre-war days you were getting 219 crores for the goods?—I don't exactly understand it.

8739. Now, one other thing. In paragraph 21 you say that Government fixed the rate at 1s. 4d. "turning a deaf ear to all protests from the Indian mercantile community and decided upon a ratio which was both unnatural and unreal." And yet in paragraph 23 you say "the rate worked wonderfully well for nearly 20 years before the war." Well, is it not

possible that, if Government fixed the rate at 1s. 6d. that it would work equally well?—Well, it will lead to a good deal of dislocation.

8740. But we are at 1s. 6d. now?—No. That is only by stringency of money, by constant manipulations. That is not the natural rate. That has been artificially made.

8741. But the prices now are in keeping with the average prices ruling in the other gold standard countries, such as the United States of America and the United Kingdom. The average level of our prices is the same and that is one of the features of a gold standard that it keeps prices more or less uniform in all the countries on the gold standard?—Yes.

8742. Well, if we are on that basis now, it looks as if 1s. 6d. was a suitable basis?—No. It is only temporary, only for one year. We must look to the stable conditions that existed for a long period and fix our rate accordingly.

8743. (*Sir Rajendranath Mookerjee.*) A large quantity of gold is generally used in India every year for ornaments, as admitted by you. Now these ornaments are given to girls at the time of their marriages in the form of a dowry. What becomes of these ornaments when they become widows when they cannot use the ornaments or when they die?—Well, they go to maintain the widow when she has no other support.

8744. You mean the ornaments are sold; they go on the market?—Yes.

8745. And after their death, what happens to the ornaments?—After their death, the heirs use them or they may sell them.

8746. So that the demand for ornaments in gold must gradually decrease?—Because that gold goes back again—Yes.

8748. (*Chairman.*) There are other ladies being married, and I suppose they want fresh ornaments.

8748. (*Sir Rajendranath Mookerjee.*) They get these. If the mother dies, she leaves it to the daughter. Of course, every year there is a fresh demand but not so much.

8749. (*Chairman.*) Mr. Jalan and Mr. Banthiya, we are very much obliged to you for your full assistance this morning.

(*The witnesses withdrew.*)

TWENTY-THIRD DAY.

Thursday, December 31st, 1925.

PRESENT:

THE RIGHT HON. EDWARD HILTON YOUNG, P.C., D.S.O., D.S.C., M.P. (*Chairman*).

Sir RAJENDRANATH MOOKERJEE, K.C.I.E., K.C.V.O.
Sir NORCOT HASTINGS YEELES WARREN, K.C.I.E.
Sir REGINALD MANT, K.C.I.E., C.S.I.
Sir ALEXANDER ROBERTSON MURRAY, C.B.E.
Sir PURSHOTAMDAS THAKURDAS, C.I.E., M.B.E., M.L.A.
Professor JAHANGIR COOVERJEE COYAJEE.
Mr. WILLIAM EDWARD PRESTON.

Mr. G. H. BAXTER, Mr. A. AYANGAR, } (*Secretaries.*)

Professor K. T. SHAH, called and examined.

8750. (*Chairman.*) Professor Shah, you are a B.A., a B.Sc., a Barrister-at-Law, and Professor of Economics in the University of Bombay?—Yes.

8751. Is that in connection with any particular college of the University?—It is in connection with the post-graduate work of the University.

8752. You have been good enough to furnish us with your views on the reform of Indian currency in the form of a draft Act* with explanations. I would ask, if I may, whatever questions suggest themselves in order to elucidate any points that may seem to require elucidation. Your proposals are of a radical nature, and are supported by contentions in respect of the principal provisions. I see that you proceed upon the general basis of the transfer of control from the Government to the Imperial Bank?—Yes.

8753. Now we come to clause 1 of the Act. Would this clause hold water legally? Might it not be contrary to treaty rights as between the Native States and British India?—I have shown that it may be difficult to carry out such provisions, but I have also shown that there are *quids pro quo*, and then you may be able to arrange by special treaties again for a provision of this nature.

8754. It might amount to a good many *quids*, might it not?—It might be difficult, I quite grant that, but it is not impossible; and if I recollect aright, some years ago there was a committee appointed by the Government of India themselves with their nominees and also nominees of the Native States which have their separate mints to come to some such arrangement as this.

8755. With regard to clause 2, is it possible for a Legislature exercising Sovereign rights to delegate from its own authority in this manner?—In the first place the Indian Legislature does not exercise fully Sovereign rights. I mean it is not a Sovereign legislature in the sense that Parliament is.

8756. Let me frame my question a little more carefully: is it possible for a Legislature exercising some Sovereign rights to delegate from those Sovereign rights which it does exercise?—I do not see anything impossible. What I would suggest, however, is that in view of the seriousness of the question, and in view of our experience, it is of the utmost importance that we should have some guarantee of currency legislation being looked upon with greater seriousness than it has been.

8757. Your next proposal to which I wish to call attention is that you propose to decimalize the Indian currency system?—Yes.

* Appendix No. 42.

8758. On the following grounds, among others, that "the sovereign is not quite the medium of international payments, since London is gradually losing her pre-eminence as the financial centre of the world, and if that centre comes to be definitely located in New York, the rejection of the proposal for the assimilation of the British Currency system with the American system may quite possibly appear as a short-sighted piece of the usual insular conservatism of the British people." Then you propose that there should be a mint, and that the mint should be in Bombay in view of the commercial importance and administrative convenience of Bombay. Your next positive proposal is that the currency system should be organized on the basis of a gold standard, and that we understand to be the standard which you work out in the subsequent sections of your Act?—Yes.

8759. Clause 6. Why do not you allow the Mint to make any charge for the cost of coinage?—I think the cost would be so small that it might well be borne by the State, something by way of this cost in the length of period allowed to the Bank or the Mint for coining bullion and then I do allow the cost.

8760. It is so small, it might just as well be borne by the private person?—It might leave room, I fear, for the charge, if it is allowed at all to be levied, being used as a source of income for making the mint self-supporting or something of that kind, whereas I would rather throw it on the State so as to make a perfect parity between the bullion and the coin value.

8761. I find a very important reservation made in your argument throughout, and that is this: tell me if I am over-stating it. I understand that you look for the successful fulfilment of your plan upon the establishment of an efficient banking system and the use of it by the Indian people as an essential condition precedent?—Yes.

8762. In explanation of clause 11, you say: "Unless we have a sound system of credit organisation, we shall be no nearer the freedom from the danger of hoarding, whether we have a traditional gold standard, or the scientific exchange standard," and there are subsequent passages to the same effect?—Yes.

8763. Tell me what your intention is there. If this is an essential condition for the successful working of a gold standard, do we understand that you would wait for the introduction of that standard until the banking system and the banking habits of the people are more highly developed?—I would take them simultaneously, side by side. Of course the gold standard I should have at once, and the same Act which introduces the gold standard should also be framed so as to improve the banking institutions and credit organization on the lines I have suggested.

8764. If we have a gold standard before we have an improvement in the banking organization, then, until we do get that improvement, we shall be no nearer freedom from the danger of hoarding?—Yes, but I would make it quite clear that I should not wait for introducing an effective gold standard till we are able to spread our banking organization in the manner I desire to spread it.

8765. What do you mean where you say that the "people are too poor in India to be able to hoard gold"? What has become of the gold that has come to India?—That gets into the hands, I take it, of the bullion dealers, the professional dealers in gold and silver; but the people at large, the general public, the average Indian, is too poor, judging from his average income, from his average wealth, to be able to hoard gold.

8766 The bullion dealers do not buy gold for the fun of the thing, to hold it; they want to sell it again, do they not? To whom do they sell it?—Some gold does get into the shape of ornaments. The ordinary customs and habits of the richer classes of the people do take up some of the gold for the purposes of ornaments alone; and the rest must be in the hoards of Native States or bullion dealers and so on.

8767. You seem to me to attribute a curious function to the bullion dealer of hoarding gold on his own account. Is it not natural to suppose that he only buys it to sell?—I do no think all the gold gets into the hands of the bullion dealers. Quite a good proportion, I cannot say exactly how much, is in the shape of ornaments, which the habits and customs of our people require to be in gold; another such proportion is possibly with the Native Princes.

8768. It is no doubt loose phraseology to refer to those ornaments as a hoard?—Yes.

8769. We now come to an important paragraph which may perhaps be looked upon as the essential point of your argument. In the last paragraph but one under clause 11 you say: "The suggestion that India should be educated in the use of cheap forms of the medium of exchange would be easily carried out by an increase in the notes, which, if made payable in gold as suggested here, will inspire greater confidence than has been the case hitherto." How do you propose to effect this increase in the notes?—I do not exactly mean an increase in the total volume of notes in circulation, I mean a greater habit of using notes which are made payable and convertible in gold.

8770. That is to wait for the education of the people in the use of notes? You are not suggesting any form of Government action by the currency authority?—No, except in the form of improved banking habits, as I say later on.

8771. Next you say: "With a strong gold reserve in the country, naturally resulting from the use of gold as currency, husbanded by the help of a proper banking system, we shall provide the best remedy against the periodical troubles in exchange." How does that strong gold reserve naturally result from the use of gold as currency?—If gold is in currency, and if the banking organization is developed in the way I am suggesting, then in every period of stringency, by the action of the banks in contracting credit facilities, they would be able to attract gold into the banks.

8772. How does that naturally result from the use of gold as currency?—Because gold is in the country, it can be attracted at once by such means.

8773. Gold first goes out into circulation and then it is attracted back into the bank?—Yes, by the use of banking pressure in the shape of the bank rate and so on.

8774. I suppose a critic might say, "why not keep the gold in the bank in the first place if you want it"?—I say it is much better if you do not in the first instance, in the initial period of the change, keep it in the banks but in the country.

8775. I still do not follow why the increase in the reserve can be looked upon as a result of having gold in circulation. As long as it is in circulation is it not in the reserve?—I follow it by saying "husbanded by the help of a proper banking system." It means, of course, that it need not necessarily, in the first place even, get into circulation.

8776. Not necessarily?—And that a proper banking system would see to it that it remains in or returns to the banks.

8777. It does not result from the use of gold as currency; it results from the proper banking system?—If you read that sentence with those words, there is no difficulty.

8778. If I read the sentence without those words I should find some difficulty. Then you continue: "This gold in circulation would not, as was assumed by the Commission of 1913-14, be at the expense of either rupees or notes, but will rather be an addition to the centralised Bank Reserve, ready mobilised against possible contingencies." Do you consider it a fact based on experience that gold in circulation can

properly be looked upon as part of the reserve, and that it is readily mobilised in times of crisis?—If you see these words there they seem to be somewhat inconsistent. "Gold in circulation" and then "ready mobilised in the bank." What I really mean is that it would be ready or mobilised eventually in the banks.

8779. Then it is not in circulation?—Not in active circulation; I make that improvement.

8780. We must really omit the reference to the words "in circulation"?—Yes, that is true.

8781. You return to the charge in your next sentence, which runs: "The ultimate support of exchange must be the kind of currency in general circulation." There again I am confronted with the same difficulty?—Somewhere it must be in the country, but not in active circulation in the sense that it is in the hands of the people.

8782. There again it is not the circulation that counts?—No.

8783. It effects a substantial facilitation in my apprehension of the paragraph. "Gold in circulation in India, under existing conditions, can only displace rupees, as the notes would be more convenient than rupees." Is that beyond the possibility of controversy? Might it not be said that, at first at any rate, the demand for gold as the more desirable medium for currency might tend to replace the use of notes? What would you say to that?—If the notes are made payable in gold, then whatever may happen in the first flush of the change, I think eventually the greater convenience of the notes is bound to assert itself; and the gold will therefore in the long run not displace the note but the rupee.

8784. But you would not put it beyond possibility that there might be an initial replacement?—Initially, for a short time perhaps, not beyond possibility.

8785. "Above all," you continue, "the gold standard and gold currency will help to stabilise prices." What is the maximum degree of stabilisation which can be attained by this method? It is, is it not, the stabilisation of internal prices in India in relation to world gold prices?—Yes.

8786. You seek no greater degree of stabilisation than that?—No.

8787. I understand that you are not a supporter of the idea of managed currencies?—Not at all.

8788. Supposing we can imagine an exchange standard which effects a stabilisation of the value of the internal currency in gold, that would also achieve the same result, would it not, of stabilising internal prices in relation to world gold prices?—I am not so sure that it stabilises effectively or actually even in relation to world gold prices.

8789. I am assuming that the exchange standard has stabilised the gold value of the rupee?—I see, fixing it.

8790. If you make that assumption, then it would have the same effect in stabilising internal prices, would it not?—Yes.

8791. "The risks of depreciation to capital investment would disappear." Equally if you make the same assumption, then that risk would disappear also, would it not? That depends upon the stabilisation of the gold value of the internal currency?—Yes.

8792. "The need to maintain large balances in England, which is such a prominent feature of the existing system, will also disappear, and our money-market be freed from its periodical stringency." Is the need to maintain balances out of the country an essential feature of the structure of a scientific exchange standard?—If payments have to be made constantly in a foreign centre, you necessarily must maintain balances there.

8793. Let me direct your attention to such an exchange standard as that which now exists in England, where the obligation undertaken by the currency authorities is to sell gold for export. That does not argue the maintenance of any balances in a foreign country, does it?—No.

8794. So that it is not an essential feature of all gold exchange standards?—No, not of all gold exchange standards but under the conditions of India, it is bound to be so.

8795. Will you explain that, Professor?—It is quite simple. India has necessarily to make large payments every year regularly by way of Home charges. India has also to receive large payments by way of trade balances. Those two streams are in mutually contrary directions; and if and in so far as the object of the exchange standard is to economise gold, as also to minimise the movements of gold to and fro, they have hit upon the system of council bills and by the maintenance of reserves in the balances in the money centre of London they are able to achieve their double object.

8796. May one pause to emphasise that there is a sharp distinction between the two purposes of economising the use of gold for currency and minimising the movements of gold?—You can make that distinction.

8797. Supposing that you picture an exchange standard, such as has been put before the Commission by some witnesses, in which the currency authority in India would undertake the obligation to buy and sell gold, selling gold for export only, just as the Bank of England does, then your international payments would be settled substantially in the same manner as they would be settled under your gold standard?—Yes.

8798. Under those conditions, there would be no necessity, would there, for keeping a balance in a foreign country?—Except for the payments to the Secretary of State. There would be still wanting some, I mean, for Home charges.

8799. He has to keep his working exchange balance, but that is different from the balance of the reserve?—Certainly.

8800. In section 18, I will refer to the main points which call for comment, (*b*) and (*c*). You say: "The third follows as a natural consequence of the first," that is, the limitation of the rupee as legal tender follows as a natural consequence of the general demonetisation of silver?—Yes.

8801. It does not follow as a necessary consequence, does it, Professor? It may be an additional point of policy, but the one does not necessarily argue the other, does it?—If you want to demonetise, the best way is to fix the legal tender limit of the rupee.

8802. It is one measure which contributes to that end?—Yes; you can also limit the supply; that is another.

8803. I will only ask you one very brief question on the matter of the ratio of rupee to the gold mohur, because it is not a matter which we will go into at any great length. You say in explanation of clause 18 that the rate of Rs. 15 to £1 would cause the least disturbance in the mercantile world. Let me put up to you a contention which has frequently been advanced before the Commission as against that arrangement, which is this, that to get to the rate of 15 to 1 in any form necessarily means an expansion of the currency, which necessarily means a rise in prices, which necessarily means a disturbance to the mercantile world in the form of existing contracts and rates of wages as based upon the standard of living. What would your view be, as to that contrary contention, that you cannot get 15 to 1 without an increase in the currency, which these critics would call "inflation," which would mean a rise in prices, which would mean a disturbance to existing contracts, to the standard of living, to wages and to general industrial and mercantile conditions?—Well, the simplest answer would be that you will take some time to work up to it. You won't do it all of a sudden, to-morrow morning; and if it is done carefully, if as you say what the critics call inflation is brought about gradually, the difference would not be perceived. If you take, I am only saying it as a mere illustration, say two or three years in effecting the change there would not be any dislocation such as it has been for example in bringing it up to 1s. 6d., the present ruling rate.

8804. Some well acquainted with the operations of the exchange market tell us that it would be impossible to make the process gradual, that the mere knowledge that the Government of India or the currency authority were working towards a 15 to 1 rate would be anticipated by the market, and that the rate would go there, if I may say so, the day after to-morrow, resulting in the disturbances to which I have referred. If that were so, then the gradual readjustment to which you refer would not be possible, would it?—But if I may point out, that overlooks the fact that this will only be an internal ratio, that as far as the exchange market is concerned, if the effective gold standard is established, it will have no concern with the internal ratio. It is simply a matter of the relation of the shilling to the sterling; which I take it it does not affect the sterling dollar ratio.

8805. The gold value of the rupee is now 13⅓ to the sovereign, is it not? You propose to make it 15 to the sovereign?—Yes.

8806. I do not see how that can have no effect upon the exchange rate?—For the simple reason that the rupee would not figure at all under the effective gold standard in the exchange rate. Does the shilling figure in the exchange rate at all?

8807. The exchange rate, we recognise, has not an immediate effect upon the vast majority of the people of the country; but what would the effect be upon all contracts expressed in rupees if you alter the gold value of the rupee?—That, as I say, ought to be gradual; and in that case in the previous answer I gave you to your suggestion about the plea of those familiar with the exchange market, I contend that the exchange market will be disassociated from the ratio of the rupee and the mohur the moment you establish an effective gold standard. As regards the effect on rupee contracts, it is a fact that if you can work it up there gradually it will not be felt.

8808. But internal prices, we agree, adjust themselves to the rate of exchange?—Well, if the internal prices follow as they should under the gold standard the world gold prices, there, too, it will be relatively immaterial.

8809. Now we come to the last paragraph under this clause. You say: "The danger of having too heavy a demand for silver coin to be changed into gold can be averted by making the rupee limited legal tender and thus restricting its use." It is commonly put to us that the result of making the rupee limited legal tender would be very much to increase the demand for silver coins to be changed into gold, because everyone who holds rupees will think their value is going to be affected, and since they can get gold for them they will desire to do so. Which is the right view as between those two?—There is this consideration to be borne in mind before deciding which would be the right way, and that is that a certain number of rupees must be in circulation; people cannot do without them, as the average Indian transaction is very small, relatively speaking, which no gold coin convenient for daily handling can settle, and the smaller rupee must be necessary for it. I take it that even if you limit the legal tender of the rupee the danger of the whole of the rupees in circulation to-day coming up for conversion may be ruled out absolutely.

8810. No doubt a large proportion of the existing circulation by common agreement can never be spared from circulation; we are only considering whatever margin can be spared?—As to that opinions may differ, but my personal opinion is that you need not expect more at the outset than 100 crores for conversion—at the very utmost.

8811. Just before we come on to that, could you make it any clearer how, in your opinion, the demand for conversion is averted by making the rupee limited legal tender?—I should improve that word and instead of "avert" I should say "reduce" or "modify."

8812. How does limiting the legal tender of the rupee tend to reduce the demand for conversion of rupees into gold?—In this way that up to the limited amount the rupee in any case is currency in circulation. I mean we are not demonetising in the sense of absolutely abolishing the rupee coin; therefore we are keeping a certain number of rupees as ordinary currency, and to that extent we are freeing the people from the temptation of converting the whole lot. That therefore modifies the demand.

8813. Then one might perhaps say that the intention of the sentence is that the danger of too heavy a demand for silver coins to be changed into gold will be reduced by the circumstance that a large number of rupees must still remain in circulation?—That is so.

8814. If that was all the sentence connotes I should feel no difficulty?—Yes, that is so.

8815. Under clause 20 is a passage to which I previously sought the reference, and could not find it. You say: "The successful working of all these suggestions depends on the constitution of proper banking facilities for the masses of the people." That is in reference to a previous question I asked you; I am only just quoting it for the sake of our records?—Yes.

8816. Passing on to part 2, Paper Currency, I find that your recommendation is that the currency note should become a note of the Imperial Bank of India. I want to ask you about notes of smaller denominations that Rs. 5. At the end of the first paragraph of explanations to section 48, you say: "But the same reasoning which has led us to adopt the 5 rupee limit as the lowest prevents us from going lower still to economise the use of silver of the rupee. The people can understand or feel the need for economising gold probably because their average transactions do not really need gold, but they will not accept the paper substitute of the rupee without all the suspicions of people accustomed to be swindled being aroused." We have had a good deal of evidence to the effect that when the 1 rupee note was in circulation it went very well; it was an acceptable and very popular form of currency. Do I understand that you are in disagreement with that?—I am.

8817. On what experience do you base that? Our evidence, if I may say so, comes from bankers and people in some close commercial touch with the people?—In the first place if you look up the figures, compare for example the total circulation of 5 rupee notes with 1 rupee notes, or 10 rupee notes with 1 rupee notes, the circulation of the 1 rupee notes never came up to anything like the circulation of the 5 rupee or 10 rupee notes. That is a matter of statistics: you can find that out for yourself.

8818. Do you mean in numbers or in value?—In value.

8819. Of course, they would have to go very well indeed to make up in value because they start with such a handicap. They were introduced about 1917. The figures, I find, are these: In 1917-18, that is the year they began, they started with only 33 lakhs. In 1918-19 they went up to 10 crores. In 1919-20 they went up to 13 crores. Would not that seem to suggest a very rapid growth in acceptibility?—It does certainly according to those figures; but you must also remember that those were abnormal times for currency requirements. Compare the figures of the rupee coinage during those years.

8820. Perhaps it would be more satisfactory to take the percentage to gross circulation as a measure of popularity. The percentage to gross circulation was this: In the year they began (1917-18) it was only ·4 per cent.; in the next year it was 7·8 per cent.; in the next year it was 8·7 per cent., still showing a steady growth, if you take the more scientific test of percentage to gross circulation?—How does it compare, if I may ask, with the circulation of 5 rupee notes?

8821. You mean the percentage?—Yes, please.

8822. The 5 rupee notes were, in the first year, 6·4 per cent.; in the second year 6·8 per cent., already less, you see, than the 1 rupee notes; and the third year 7·4 per cent., still less than the 1 rupee notes?—And the 10 rupee notes?

8823. The 10 rupee notes are, of course, the most popular. In the three years we are considering they were 31·9, 34·8, and 35·3 per cent. In view of those figures, does that suggest any possible modification of your views as to the unacceptibility of these notes?—I think I still remain convinced that it would be unwise to have 1 rupee notes or any notes lower than Rs. 5.

8824. The whole of the explanatory paragraph to clause 49 appears to me to proceed upon the presumption that the note issue in India did not make any great progress before the war. Is that borne out by statistics?—It went up to only 55 or 60 crores in practically 50 years.

8825. Quite generally, in view of the condition of the nation, in view of the undoubtedly backward state as regards education in fine currency matters of the great bulk of the Indian people, on the whole, does not the progress of the note issue before the war appear to be satisfactory?—I think it might have been more so. In comparison to the rupee coinage even, the note circulation did not keep anything like the pace that it might have.

8826. It was not at the pace that you desire to see?—Yes.

8827. In paragraph 53—(this is a minor point, but I just want to question whether your statement is quite watertight)—you say: "All officers of the Imperial Bank of India entrusted with special functions, and authorised to provide, sign, issue, or exchange the currency notes," and so on, "will be appointed by the Directors of the said Bank subject to the approval of the Governor General in Council." I am afraid a Bank that desired to do so might rather beat you on that paragraph, might it not?—How do you mean?

8828. Supposing it were to appoint some subordinate clerk to be entrusted with the special functions under the Act. Might it not get all the practical control which you so desire? It could do so *pro formâ*, could it not?—A subordinate clerk could not be authorised to sign or issue or cancel a note; he may only be delegated to do the work for the time being.

8829. If the Bank was bent on driving a coach and four through your Act it might appoint a chaprassi *pro formâ* to sign the notes?—I certainly did not take in that contingency.

8830. One has to take all possible contingencies into account in drafting an Act of Parliament. However, with this you deal more fully in your final section. In the third explanatory paragraph to 53 you recommend that there should be no distinction between an Issue department and a Banking department, and you base your recommendation on the fact that the maintenance of such a distinction would lead to difficulties in tho money market becoming more acute than ever in a period of crisis. The only analogy possible to suggest is that of the Bank of England, is it not?—Yes.

8831. Is the differentiation of the banking department from the note issue department found to place any hindrance in the way of mobilising the reserves under the present system for the purpose of avoiding the stringency of the money market?—Nothing very great, except in very acute stringency, when it does interpose some delay before such a measure as the Bank Act, Suspension Act can be passed for currency to be placed at the disposal of the Banking department.

8832. You will note that, under your own system, we have to deal with a similar provision for an emergency?—That is unavoidable.

8833. As regards the reserve, you recommend a reserve of which 50 per cent. is to be gold coin and bullion and 50 per cent. to be securities?—Yes.

8834. In paragraph 57 you say: "Nevertheless, the amount thus fixed may be increased under the authority of a resolution of the Legislative Assembly for any time or an order of the Governor General in Council for a period not exceeding 3 months." In general, do you see anything undesirable in introducing into the currency system of the country as a necessary part of its mechanism legislation by the legislature; is that not a cumbrous method?—In the ordinary functioning it would certainly be cumbrous; but in extraordinary emergencies such a procedure would be advisable.

8835. The passage of an Act of Parliament is often attended with a certain amount of controversy, of party strife and of delay. In the nature of the case the need for this currency might arise suddenly and in an emergency. Might there not, therefore, be something inappropriate and unpractical in making it depend upon the resolution of the Legislative Assembly?—In that particular case I should give it to the Governor General for three months.

8836. Supposing the three months had expired and there is still a necessity?—Such an emergency will have to be very extraordinary, and in that case I think we may take it, as happened in the Great War, that all parties would be agreed in that event and that there would be no party spirit manifesting itself in the Legislative Assembly if the emergency is so great as to last beyond three months.

8837. Your next important element of policy is in the explanatory paragraph to clause 61, in which I understand you say you "see no reason why the Imperial Bank of India should be kept out of the exchange business"; indeed, as I understand from a further part of your analysis, you contemplate that things should so work out that there should be a practical monopoly of exchange business in the hands of the Imperial Bank?—Yes.

8838. You recommend that the dividend of the Imperial Bank is to be limited to 10 per cent.?—If it is a private corporation: but personally I would prefer the bank to be nationalised wholly.

8839. That is not provided for in this?—Not in this: I have not gone into the detailed composition of the Bank in this.

8840. The Bank is to make a lump sum payment of fifteen lakhs a year in consideration of the exemption from stamp and other duties in respect of the note issue, and profits above ten per cent. are to be divided equally between the proprietors and the Government after 25 per cent. has been put to reserve?—Quite so.

8841. That is the general basis as regards the financial aspects of the bank's business?—Yes.

8842. You say you have not gone into the composition of the Bank. Nevertheless in Part III you have laid down, by way of additional provisions, the general principles subject to which the subsequent Bank Act is to be drawn up. The Bank is to allot fully paid shares to the State of not less than one-third of the total authorised capital of the Bank in exchange for the bullion and coin reserve now held by the Government. The Government is to nominate one-third of the Directors to the Bank on a recommendation from the Legislative Assembly from among the officers of the Finance Department of the Government or from the Members of the Legislative Assembly and the Council of State?—Yes.

8843. Do you think it desirable to introduce the direct action of the Legislative Assembly in appointing directors of the Bank? Do you not fear that this might introduce political and partisan considerations which would be undesirable?—I should be inclined to agree to that. I am aware of this point, and my reply to it would be that if the constitution of the Government of India is altered, and it is made fully responsible in the sense that the British Cabinet is to Parliament, then I should leave that power to the executive government of the day. In view, however, of the present constitution of the Government of India, at the risk of partisan feeling of which I am perfectly aware, I have introduced this clause regarding the Legislative Assembly. But I am fully aware of the undesirable feature.

8844. What purpose does this close association of the Legislative Assembly in such a detail as the appointment of directors serve?—Greater publicity and greater criticism, if and when necessary.

8845. Is publicity not adequately provided for by your provisions as to the publication of accounts?—I am afraid that is not enough.

8846. What further publicity would you hope to obtain by this method?—I should require more frequent general reports, besides the mere mass of figures in the weekly or fortnightly returns, and explanations too—something like, for instance, what we have got in the Standing Finance Committee Report which gives more detailed explanations for the general working of the finances.

8847. I understand that you do not yourself underrate the undesirable elements in making the appointment of directors to the bank possibly the subject of party strife, and, putting it at the worst, a scramble in the party cockpit?—I do not under-rate that.

8848. Further on you say the Finance Member on the Board of Directors is to have the right to postpone a decision of the directors by a minute of dissent, pending the orders of the Government of India or a resolution of the Legislative Assembly. Does not that have the effect of making the Legislative Assembly a court of appeal as to the conduct of the business of the bank, and is that not undesirable?—It arises again from the same general statement I made before.

8849. I will return to that in a moment. In explanation of clause 76 you say: "Under these provisions there would be instituted nearly five hundred branches and agencies, possibly many more, and will thus afford India a proper banking system." I understand, thus, that the improvement in the banking facilities and the banking organisation of India for which you look is to be really a great extension of the activities in all forms of banking business of the Imperial Bank?—That is so.

8850. Thus making the Imperial Bank in substance a monopolist in the banking business of the country?—I would not say entirely a monopolist; but if I may explain at this stage a little more fully, the kind of banking organisation that I envisage would be something of this nature. The Imperial Bank would be, as it were, at the top of the banking organisation for the whole country, doing banking business for Government, doing exchange business, doing the business of buying and selling bullion, and looking after the note issue, and being the banker of public and semi-public corporations. There will then be private banks no doubt. In all big cities also I envisage the creation of what I would call municipal banks, which will do the local banking of all kinds; they would, however, be affiliated or be in close working agreement with the Imperial Bank which would also have special departments for looking after industrial and agricultural finance, which would necessarily be of a different type from commercial finance; and the co-ordination of all these different banks, radiating as it were from the central activities of the Imperial Bank, might perhaps in one sense mean that the Imperial Bank would be a monopolist, but not in any other.

8851. You do not fear that such an organisation, with such privileges and such extended powers in the hands of the Imperial Bank, might put it in such a position that it would be impossible for any private Bank to compete with it?—I should not be sorry personally if private banks were not able to compete with the Imperial Bank.

8852. You are opposed to competition as a general principle in the commercial world?—I do believe in nationalisation and socialisation.

8853. Finally, to return to a question which I have already put to you, in paragraph 84 you recommend the creation of a committee of supervision with very wide powers for demanding the opening of new branches and of suspending, censuring, or advancing any officer of the Bank. As you put it, it is to be a committee to control the bank, and it is, in particular, to have the right to appoint examiners to inquire from the outside into all the business of the bank. This committee is to consist of seven members, of whom four are to be chosen by a resolution of the Legislative Assembly. There I have again to put the same question: do you not see something very dangerous in thus in substance placing the whole life of the Bank in the hands of politicians?—I would give the same answer as before.

8854. In particular, what do you think would be the effect upon the purity of political life if all the officers of the Bank could be suspended, censured or advanced by this political committee?—It would be in principle and also in practice very undesirable. If we had a Government carrying fully the confidence of the people, then I should leave it to the executive Government; I would not interpose the Legislative Assembly in these matters at all.

8855. May I ask you to be kind enough to deal with any supplementary questions which any of my colleagues may want to ask you?—Certainly.

8856. (*Professor Coyajee.*) Professor Shah, if you will allow me, I will put a few questions to you as regards the peculiarities of the position of India as regards the introduction and working of a gold currency and standard. In the first place the position of India is favourable as regards the introduction of gold currency on account of her usually favourable balance of trade?—That is so.

8857. But do you not think that India will have to pay larger prices for the demonetisation of silver than other countries did, in this sense, that the value of silver ornaments which are the past savings of the people will fall appreciably? — In what sense? Supposing we take the present ratio at 13⅓ and I suggest to make it for internal purposes 15, the difference would be 12½ per cent.

8858. Not that way, but because India will withdraw from the silver market and therefore the world price of silver will fall?—The world price of silver would fall, if you were to throw the entire hoard of silver that India has to-day upon the world market, which at the most would not be more than 500 crores, roughly speaking, and all of which, by the way, cannot be so thrown. We need not even anticipate that. The silver price would not be depreciated by more than 25 per cent., i.e., double the depression as regards the coin. That is the maximum that we need fear at the worst.

8859. What I was meaning was that India being one of the biggest buyers, as soon as the silver market people learn that we were withdrawing from the market, there will be at once a fall?—There will be; but if we do not go out ourselves and sell our own silver for the time being, then we need not accentuate that fall.

8860. Yes; but the individual holder or possessor of silver would not and could not possibly hold out for a prolonged period?—Let us distinguish between the coin portion and the ornament portion. So far as the coin portion is concerned it will depreciate; but so far as the ornament portion is concerned I believe that it will really not come for conversion.

8861. Not even in times of famine?—I was just coming to that; in ordinary times it would not come for conversion; it would in an extraordinary emergency like a famine. There you have to take into account the fact of the frequency of famines. The general opinion is that a severe famine occurs something like once in ten years, that is, a famine so severe that it would require you to part with such little reserves that you have in the shape of ornaments. As a matter of fact as regards this danger that you mention, we may spread it over, if one may say so, a number of years. So that argument at any rate does not frighten me much.

8862. In the second place, a very large proportion of transactions in India must be carried out through the instrumentality of the rupee. For a long time you cannot reduce the rupee to the condition of the shilling?—I would agree if you said you cannot abolish the rupee altogether.

8863. But could it be reduced to the status of the shilling?—That I think it could be. Just as shillings are required for paying small wages, so rupees would

be required and that status they would maintain; but they would not have the status which they have to-day of a standard coin, even though in reality they are supposed to bo a mere token.

8864. Now, look at the English farmer. He does not reckon his earnings in terms of shillings, but the Indian farmer will have to do so in terms of the rupee for a very long time?—He may have to. Yes.

8865. Then there is a third contrast. Does not the fact that India has habitually a favourable balance of trade, present an inherent difficulty in the way of the working of any monetary standard whether it is a gold exchange standard or a gold standard? In the case of the gold exchange standard, there is the fact that because of successive favourable balances, more rupees were coined and consequently there was the trouble of over-coinage of rupees. To a certain extent the same difficulty will come to the gold standard also in the country because suppose you take these four favourable monsoons which we had. The first three would draw in so much gold that prices might rise. And although the fourth monsoon was favourable yet because the prices in the country are high, the balance of trade might have to become unfavourable?—This last I think is rather far-fetched, but I will answer the whole argument. Your apprehension might be true if you were allowing for a favourable balance of trade in the shape of gold to this country to be deposited in the form of currency in general circulation. The President drew my attention to this point. But this ought not to be allowed if you want our banking system to get into proper order. All the gold must be reserved and conserved in our central mobilised banking reserve, which will be effectively available when we want it in the case of an adverse balance, and which should not affect and should not be allowed to affect the total volume of circulation to any appreciable degree.

8866. But how? When there is a favourable balance, the gold comes into private hands first. Then they take it to the Central Bank and deposit it there. And they can always draw notes against that. Therefore, the potential inflation continues?—I have therefore fixed a maximum value to the total note circulation. I say 100 million mohurs, or 300 crores of rupees at most. I have taken that precaution to see that the maximum is already fixed to the total amount of notes. Even if you add in 200 crores of new notes in the course of the next five years you cannot (much inflate the total circulation) because the maximum is fixed. By putting gold in the bank reserve I have not suggested an indefinite expansion of the note issue. Gold then would be for all practical purposes inoperative as far as the level of prices is concerned.

8867. If you will allow me, why can't I draw cheques against it?—Then we come to the deposit currency and the inflation by means of the deposit currency against that. Now, that of course necessarily depends on the requirements of the trade. If trade wants a greater volume of currency, obviously there is a greater demand for it; and by refusing it at a time when trade wants greater currency you are needlessly preventing trade activity by stringent currency regulation. At that time certainly the deposit currency will grow purely in response to trade requirements; and the moment the trade requirements stop, that must end too.

8868. Because there was a couple of years of good harvests and favourable balances, therefore prices in the country have already risen; and under a condition of high prices trade does want artificially more money and therefore the deposits will be drawn upon? —I think perhaps I am not able to make my point clear. If the deposits are drawn upon in a sense without a backing that is one thing. But if the deposits are drawn upon because the currency is just responding to the call of trade, then the danger of the high prices in the final part of your argument, namely to the extent of turning what balance there is against us, need not be apprehended. That is all I am saying.

8869. (*Sir Purshotamdas Thakurdas.*) You, Professor Shah, recommend a gold standard with gold currency. You don't think a gold standard by itself without gold currency is feasible or desirable?—It is feasible. I don't think it is desirable.

8870. Why is it not desirable?—Well, for one thing to my mind it seems meaningless to call a thing a gold standard and not to have gold currency. Unless you mean the gold exchange standard.

8871. No, gold standard?—If you mean gold standard and no gold currency in the sense that there is no gold coin corresponding to the standard, then it seems to me to be meaningless. What exactly do we mean by gold standard which is without gold currency? I am frankly unable to conceive it.

8872. Well, we are told that gold standard without gold currency is in vogue in England at present?—Well, there is gold coinage surely?

8873. But it is not available?—Not available in the circulation. But gold is in the bank vaults. That is something quite different from saying that there will be no gold coins at all.

8874. But supposing we have it in the same way as they have it in England, gold in the vaults at Calcutta and Bombay?—That is practically what my proposals amount to, that I would like the gold to be in the banks.

8875. But you also say that there should be gold currency?—To that extent, I made an amendment in answer to the President too. Every time he pointed out the word "circulation" I amended that.

8876. (*Chairman.*) As to that I would like it to be quite clear that the Professor does suggest convertibility, for instance of his notes?—Oh yes.

8877. (*Sir Purshotamdas Thakurdas.*) Therefore, gold notes should be convertible into gold?—Yes.

8878. Therefore, there will be gold coin in circulation?—That may be.

8879. Which means that Government are bound to give gold coins on demand, which is not the case in England at present, I am told?—Not at present. But I should like to be enlightened on that point also. I am not quite clear whether by law a person demanding gold coin in England can be legally prevented from getting it. By persuasion I can understand; by the bank authorities showing it to him to be undesirable. But I am not quite clear whether by law if a man insists upon it he can be refused.

8880. (*Chairman.*) He has no right to gold coin against notes?—He has no right by law?

8881. (*Chairman.*) That is so.

8882. (*Sir Purshotamdas Thakurdas.*) So I am told is the case in Holland too. They have very substantial backing of gold against gold notes but they can't get gold coin for internal purposes. Would you recommend that for India?—I would not recommend it immediately. I should like people to be educated in banking methods.

8883. You would recommend to keep that as the ideal to work up to?—Yes.

8884. Now you admit that gold standard without gold currency is the most economical?—In the sense I am meaning it, certainly.

8885. Well, will you take it in the sense in which I am putting it to you, namely that it will mean less cost to the State?—You mean gold in the bank vaults and not in circulation?

8886. Yes. It would be most economical?—Yes.

8887. In spite of India needing all the economy possible in the expenditure of the State, why do you recommend gold currency in circulation then?—But I am not recommending it in circulation actually. I am suggesting that the gold should be in the banks in India.

8888. But I understood that you would like that to be kept as an ideal to be worked up to; which means that immediately the gold standard is adopted you would like gold coin in circulation?—It will be kept in the circulation whether I like it or not.

8889. Therefore you say that it would have to be put into circulation?—My ideal would remain the same, as I have been saying, but the consequence of the immediate putting into operation of the gold standard may be that some gold will get into circulation.

8890. But it need not get there; unless you suggest that the Commission should recommend it. Would you recommend that the Commission should suggest that gold coin should be put into circulation?—I should certainly not recommend that the Commission should request that *ab initio* and for ever gold should never be allowed to get into circulation.

8891. Therefore, gold should be allowed to get into circulation later on and that is more expensive to the State?—More expensive to the State, I didn't say. It would be more economical to have a gold reserve but I don't think this would be more expensive to the State.

8892. But a gold standard without a gold currency is the most economical?—Most economical in the general interests of India as such.

8893. Most economical in the interests of the tax-payer?—Oh, I am not prepared to say that. I did'nt say that either.

8894. You don't think that a gold currency is costly to the country?—Costly to the country in the sense that we should be needlessly having a more expensive and uncivilised form of currency.

8895. Exactly. In that sense I say it would cost more to the country to put gold currency into circulation?—That is quite a different thing from saying it will be more costly to the tax-payer. If I may explain myself. When I say that it would be more economical to the country I mean it in this precise way. Let me make myself quite clear. That if you have, not gold in actual circulation, but, as I said, in the banks, who are on the strength of this gold in their reserve able to so expand their credit facilities as to be able to assist the trade and industry as much as they require, then they help the economy of the country very substantially. *Per contra*, if they have not got that reserve which is dissipated and impossible to be attracted to the banks, they are necessarily prevented from granting those facilities to trade and industry, which therefore constricts trade and industry and hurts the economy of the nation. That is quite a different thing from saying that it is costly to the tax-payer. I mean it in that sense, when I say that a gold standard is the most economical.

8896. I see the point of view from which you state it. Now let me put it from the point of view from which I mean it. Gold currency in circulation would mean more cost to the tax-payer in the sense that more gold would have to be put into the treasury for the purpose of being handed out in exchange for rupees or rupee currency notes on demand?—But I should like to be quite clear as to how you mean it would be more expensive to the tax-payer.

8897. I will illustrate it. You said in reply to the Chairman that 100 crores of rupees may come into the treasury to be exchanged for gold coin?—At the outset, yes.

8898. The equivalent in gold of 100 crores of rupees will have to be put into the treasury before you declare the gold standard and gold currency in force. It would cost you something to get the 100 crores of rupees worth of gold from outside?—You must be prepared for that contingency.

8899. Yes, but if you put that in operation you will have to get the gold and put it in the treasury. You would either have to lock up your reserves or seek credit outside to get 100 crores of rupees worth of gold. You would have to pay interest on it. Would that not mean expense to the tax-payer?—As regards these 100 crores and for a very brief period.

8900. May I request you not to discuss the 100 crores figure because I propose to discuss it with you later. Would you concentrate yourself on the point of view which I have just suggested? It means that you must provide gold resources in order to facilitate the possible conversion demands that may be thrown upon it?—Yes. My simple reply would be that already we have got resources, gold resources and silver resources, which if not over-abundant or too ample, are quite sufficient to give us some assurance that our gold standard and currency will not on the very first day prove futile.

8901. What you mean is that in the two reserves that you have got, you have got gold and gold securities which can be liquidated and you can provide the 100 crores of rupees worth of gold and gold securities? And to that extent it would be more expensive?—To that extent you can make a sacrifice.

8902. To that extent we will lose that revenue? A gold currency in circulation does mean more expense than a gold standard without a gold currency?—But any system of currency which has a fiduciary reserve and is converted into rupees from a fiduciary reserve will to that extent cause a loss of revenue.

8902A. Do you regard the income by way of interest from the securities as a normal income of the State? It is so regarded at present in India?—I do not think that is advisable, it is wrongly so regarded.

8903. But to that extent it will make a hole in the revenue? I am only asking you because to-day the Finance Department does take the interest on the gold standard reserve and the paper currency reserve securities to the credit of the revenue budget. To the extent of those securities being reduced in order to get this gold, there would be a smaller income and to that extent it would cost the tax-payer more?—To that extent; but I still repeat that it is so wrongly regarded as income.

8904. I may accept your statement, but whether right or wrong it would make that much diminuation in your revenue budget?—So far as my opinion is concerned, the reply is quite clear that if the thing is wrongly so regarded, it is wrong and ought not to be bothered about.

8905. Irrespective of whether it is right or wrong, I say for the next year if the Finance Member has to frame his budget on the scheme you have put, he would have to take credit for that much smaller amount of interest on the paper currency?—Yes.

8906. And to that extent it would mean more cost to the tax-payer?—I agree in that form.

8907. Now we will therefore ask only one more question,—you think therefore that the tax-payer must be prepared to make that sacrifice in order to get a gold standard with a gold currency?—Certainly, and if I may illustrate that with an anology: Just for instance as we sacrificed 7 crores of rupees roughly speaking per annum from the opium revenue, which was wrong, we are agreed, I should on the same anology treat this reduction in the interest income, if it is derived from a wrong policy.

8908. If it should mean a little extra taxation, you think that the question of having a gold standard and a gold currency circulation is so important that that extra taxation if any might be tolerated?—It is worth paying it, though I do not think it would be either heavy or protracted.

8909. Now regarding the 100 crores of rupees which you think would be tendered to the currency offices for conversion into gold coin when the gold coin is payable by the Government, may I ask you whether you have arrived at that figure on some calculation or whether it is a rough haphazard figure?—It is not haphazard. At the same time I cannot say that it is a very scientific calculation. I may give you the main outlines of my general basis for this rough calculation for what it is worth. I take it that the active circulation of rupees to-day is about 300 crores, of which, testing by means of agricultural produce value and so on, and also the population statistics I should think about 250 crores would be required for ordinary transactions?—250 crores of coined rupees would be required certainly by the people for active circulation. I am taking the gross circulation. The maximum according to my calculation would be about 300 crores of which

250 crores I personally think would be required. I think the net demand for conversion, should it come, would be 50 crores of rupees; and I also take it that at the most we must be prepared for a reduction in the note circulation by way of conversion and replacement by gold in the popular hands of another 50 crores. The note circulation is 190 crores, in the neighbourhood of 200 crores. We would convert it into gold, we would make it expressed in gold, on the assumption that gold would be more acceptable to the people than notes. If we make that assumption for the sake of argument—in the long run I believe that the eventual, the inherent superiority of the note will asset itself. Out of 200 crores about 50 crores may have to be the maximum required to be converted into gold.

8910. So that I may summarize what you say by saying that you expect 50 crores of silver rupees being tendered and you expect that 50 crores rupees worth of silver currency notes will be offered in exchange for the gold coin?—At most.

8911. Take rupees first: you said that you think that 250 crores of silver rupees are in active circulation to-day, and you do not assume that that amount would be substantially reduced even with a gold currency?—I said from 300 crores, 50 crores would be offered, therefore 250 crores would be required; that is in circulation and that would be required.

8912. That works out to something like Rs. 8 per head of population?—Yes, about 10, if you speak of British India.

8913. Banking facilities in India are comparatively speaking very few; the transport facilities are similarly much smaller than in Europe; the facilities for getting your paper notes exchanged into rupees are also comparatively small. If in England to-day the average of the shillings outstanding per head of population is 21, you think that Rs. 8 to 10 per head here with the handicaps I have just mentioned is a safe calculation?—I believe so, in consideration of the relative wealth of the two peoples.

8914. You think that where they require in England 21 shillings per head, in India Rs. 10 per head would be quite a safe calculation?—Quite. I should even go down to 5, bearing in mind the relative position of the wealth of the two countries, 5 would be safe, but in view of the difficulties, I should leave a margin and put it at 8 or 10.

8915. 21 shillings as you see are double the smallest denomination of notes: there are notes for 10 shillings and still in spite of that, the number of shillings per head outstanding is double that. The smallest denomination here is only Rs. 5. You still think that is not an underestimate of what is in active circulation, the rupees?—I do not think so.

8916. You think there are hoards of coined rupees?—Not large.

8917. Where are these rupees to-day, the 300 crores?—300 crores are in active circulation but 50 crores are with people who can afford to lock up Rs. 15 instead of one gold coin.—I won't say " lock up." If you mean they are taking it back for purposes of hoards, I won't agree. We are now thinking of the active circulation being reduced to the extent of 50 crores in view of the superiority of gold.

8918. Professor Shah, if the 300 crores of rupees are all in active circulation, then the man who would exchange fifteen rupees for one coin either with the motive of curiosity or with the motive of keeping that coin in his bag or in his safe, I think, would eventually put that into circulation, active circulation. This is not replacement of the hoard. Where are the 300 crores of rupees outstanding?—They are not in active circulation, and you say you do not expect there are any rupee hoards?—The coined rupee may not be much in hoards but the silver in the shape of ornaments and so on may be.

8919. But we are not talking of silver bullion?—As far as the coined rupee is concerned, I estimate that the active circulation now in the hands of the people is 300 crores.

8920. And if 50 crores of rupees come back to be exchanged, they would only come back to be exchanged for gold for a temporary period, the people being attracted by the mere curiosity of the new gold coin?—The people's belief is that it is a superior coin.

8921. Any way you think 50 crores rupees worth of gold will have to be counted upon as being required?—As a maximum provision.

8922. Why do you think they would exchange 50 crores of notes for gold coin?—For the same reason that the general belief is that it may be a superior or a better medium of exchange.

8923. What denomination of notes would then be tendered? 5,10,100?—Small notes I think, comparatively speaking.

8924. You mean 3 five rupee notes for one coin?—5 and 10 rupee notes.

8925. That will be done for curiosity or for any other purpose?—I think the general feeling at first would be, taking the average intelligence of our people, they would think gold to be better than the note, better to keep in the pocket and of more value as they would feel.

8926. Would they keep silver coin in their pockets more than notes?—That they do even now; there are more silver coins than notes in circulation.

8927 and 8928. But the class which handles silver coin is different from the class which handles currency notes?—In the case of small notes I do not think there is much to choose. The larger notes are different. In the case of the small notes, I think it is practically the same class. I mean we are talking of the 10's and 5's which practically means 40 per cent.

8929. You really expect that with a gold coin in circulation even the paper currency may be effected?—People will take less paper currency for a temporary period—we must at least provide for that.

8930. How long will that last, a few years or a few months?—Not a few months, a few years, but I am not prepared to say how long.

8931. It will all adjust itself after 10 years?—Not so long as 10 years. It is only a personal opinion, but I do not think it would be more than 3 years. If we go about it rightly and adjust all the measures simultaneously—you must not take one proposal in water-tight compartments and leave out others—if you take all this comprehensively and go about at the same time, simultaneously, then I think three years would be a safe period to think of for the adjustment.

8932 At the end of three years all the coin would return and people would handle paper as freely as at present?—I think so.

8933. And would the paper notes be more popular when people see gold currency-coins available?—Paper notes would be more popular; they would be more convenient. And I would also add that the further banking facilities that I have suggested in the course of this evidence would make those facilities even more convenient than the notes themselves.

8934. What I mean is, leaving those facilities as taking a longer time to develop, the banking facilities, taking the conditions as they are, do you think that at the end of two or three years, by people seeing gold at the treasury, more confidence will be inspired in gold notes and silver than at present?—In the first place those facilities need not take three years to come into effect.

8935. Suppose we take it for the sake of our argument that those facilities are delayed, taking the things as they are now, do you think that the currency paper will get a set-back as far as popularity is concerned, or will really become more popular?—Temporarily, it may create a set-back.

8936. But after a couple of years or so?—The things will readjust themselves more or less to the same level as they are to-day and the note will circulate to the same level as it does to-day.

8937. Now regarding what you have said in Part III of your draft Bill, you have therein, in clause 2 of section 72 given us the constitution of the Board of the Imperial Bank. Now I see from your book, Indian Currency, Exchange and Banking, published in 1922, at page 401, that you have there given us a scheme of the constitution of the Board of the Imperial Bank The total comes to 25?—The directorate.

8938. Yes. But here if I understand you correctly, it is about one-third, or there is no number? You don't mention the number in clause 2 of your draft bill?—No, I do not.

8939. May I take it then that it is one-third of the 25 which is given in your book of 1922?—Yes; you may make it 24 to have an even number.

8940. Now there in your book the Government directors provided for by you are under (*f*) only two, out of 25. Here in your draft bill you have made it one-third of the total. As this is a later publication than that, may I ask you the reason for the change?—Because I feel much greater need of Government supervision and control in view of the greater and greater experience one gets.*

8941. I see; in 1922 you thought that a Government directorate of 2 out of 25 was sufficient; but now in 1925 you feel that it should be 8 out of 24 or 25?—And I add "if a private corporation," which I have mentioned here. So that my personal opinion still remains that the Bank should be a wholly nationalised corporation in which all will be Government nominees and no private capital either.

8942. In which case the shareholders will be paid out?—Yes.

8943. And that is your ideal? You still develop this Imperial Bank Act as you think that the ideal is rather remote to achieve?—You mean the present improvement?

8944. Yes.—Let me make that clear. There has always been an inconsistency in my position, if I may say so in this connection.

8945. Oh; I see; I did not know that—No; it is not a matter of regret to me. It is a position in which most of us are placed. It is simply an outcome of the fact that I have no confidence in the present constitution of the Government of India, that makes me hesitate in giving the complete nationalisation which I would otherwise give if the Government of India was thoroughly responsible and sympathetic to the people of India. I would then not stop at all at half measures. But I know this position which is illogical makes me stop at half-hearted measures that obviously make me inconsistent.

8946. I am very glad that you propose to discuss things as you see them now without as you say visualising them as your ideal?—Yes.

8947. And to that end you suggest this in clause 73 and the following?—Yes.

8948. Therefore, you suggest, to begin with, that one-third of the directors of the bank shall be nominated on a recommendation of the Legislative Assembly, either from among the officers of the Finance Department of the Government of India or from among the members of either House of Legislature?—Yes.

8949. You, therefore, suggest that the Assembly should be asked to elect these eight members of the Board of the Imperial Bank? That is what it comes to?—Yes.

8950. They are to select these officers or they may select non-officials?—As I explained to the Chairman, that is simply the outcome of the fact that the Government of India nominations do not carry fully the confidence of the Indian nation

8951. But we agree, Professor, now to overlook the ideal part of it in which perhaps many may not differ, and to take things as they are to-day; and let me put one question to clear that. You are, if I may say so, impatient about the currency reform of the Government of India, impatient in the sense that you do not want to wait until we get the constitution altered?—Yes

8952. Therefore, we must take cognisance of the conditions as they exist to-day, and we cannot wait for the ideal day for the constitutional reform to come. Recognising these things, and taking the Government as it is and the Legislative Assembly as it is, whatever powers they may or may not have, you still suggest that the Assembly should be asked to select eight directors from out of the members of the Government or from out of the non-official members, to serve on the Imperial Bank?—On a recommendation from the Assembly, yes.

8953. You don't give that right to the Governor-General in Council, but you give it to the Assembly?—Yes.

8954. If the Assembly selected two members from each party, do you think that it would be to the interest either of the country or of the institution?—If the Assembly's recommendations go on wrong lines, it does not require me to say that it will be undesirable and highly unfortunate.

8955. You said in reply to the Chairman that you were aware that political influences mostly count in such matters in any legislature.—I did not say "alone." But I say they would count.

8956. Do you think that the Assembly, as you have seen it working, is likely to be an exception to the general rule?—Of political influences being at work, their being subordinate or being at work?

8957. Being an exception to the general rule of the political influences being the guiding factor in such elections?—Let me understand clearly. You mean to say that in my experience do I think that the Assembly would subordinate political considerations?

8958. Would you not apply the same rule as you said happens to be the case in other legislatures in the world?—There is a natural apprehension in any case.

8959. Bearing in mind that apprehension, Professor, supposing something was to be done in the year 1927 or 1928, would you seriously suggest that the Assembly should be given the right of electing eight members to the directorate of the Imperial Bank or some other State Bank as you devise it?—I would seriously suggest on two grounds; one, of course, that the political constitution of the Government is not changed, and the second is that I would, in view of this danger of which I am not unaware, confine the recommendation, restrict the right of recommendation or election by the Assembly to predetermined classes, that they can select only from these groups, and the Assembly cannot go outside these groups to make its selection. You may say from among the officers of the Finance Department, from among such and such a class.

8960. Which class would you name there, Professor?—Of course, the Finance Department will be there; the officers of the Finance Department would, in my opinion, naturally be there.

8961. Naturally; but the officers of the Finance Department who are in the Assembly are only two.—They need not be members of the Assembly; they may be outsiders even. I have said so already.

8962. That is the non-official members?—No, they may be outsiders. They may be officers of the Finance Department, or non-officials or members of the Legislative Assembly.

* A communication has subsequently been received from Prof. Shah, stating that the passage in question relates to the Industrial Department of the Imperial Bank, and not to the Imperial Bank proper, and that the Board of Management of the Imperial Bank proper is described on p. 244 of his book "Indian Currency, Exchange and Banking."

8963. Three classes, one officers of the Finance Department. Then?—Non-official business community, let us say, the general business community, the eminence of whose members will be known to the Assembly; and members of the Assembly itself in which a convention might come to be established that such members as have banking and commercial experience might be selected.

8964. May I follow it up a little further? You would have members of the Assembly voting and selecting eight members from those who belong to the Finance Department of the Government of India, those who belong to the banking and commercial community, all over India and the other?—The members of the Legislative Assembly who have banking or commercial experience.

8965. I see, members of the Legislative Assembly?—Yes, such members of the Legislative Assembly who have banking or commercial experience.

8966. I see; they must select people of one of the three qualifications?—Or perhaps one other class might be added to that.

8967. At any rate, you would not restrict it to members of the two Legislatures?—No.

8968. Nor would you leave it open to the election of any member, either a lawyer or a doctor or a zamindar for example?—No.

8969. You do consider that qualifications are necessary?—Qualifications must be laid down.

8970. Even for election by the Assembly members?—Yes.

8971. And you think that those qualifications should be, he must be either an officer of the Finance Department of the Government of India or must be conversant in banking and commercial interests of the country?—Yes.

8972. It would be rather difficult, would it not, to very accurately lay down the qualifications and to say who should be looked upon as a merchant and so on?—It may be difficult; but it will be worth overcoming in this way. As you know, in all processes of election, there is nomination first. You nominate a person. The nominating authority will be aware of the qualifications. There is, for example, a convention or a rule even in the present Legislative Assembly that no proposals for additional taxation might be moved except by a Government member. Some such rule may be made in the case of these nominations, that these nominations also ought to come from the Government.

8973. Ought to come from the Government to the Assembly?—Nominations to be voted on.

8974. Therefore, all nominations should be subjected to Government who would select a panel of say 50 or 25 members out of those and the Assembly would select eight out of that number?—Yes; I was even thinking of a definite nomination of A, B, C, D and so on made by the Government and the Assembly being simply asked to vote upon them.

8975. That is what I said.—Of course you suggested an improvement which I am perfectly open to accept. A general panel of 25 from amongst whom the required number might be voted on by the Assembly.

8976. The same thing as it is in some cases in the Assembly. But the process is reversed. At present for election to certain committees, the Assembly elects, say 15 members, that is called a panel, out of which the Government nominates five. Would that meet your purpose equally well?—As you said it will be the reverse thing.

8977. Would that serve?—It would serve.

8978. The Assembly to elect say 15 or 20 after which the Government alone should nominate eight to the Bank?—Yes, it would serve very well.

8979. Now regarding (1) you suggest that that one-third of the capital of the Bank should be allotted to the State not in exchange for hard cash, if I understand it correctly, but in exchange for the bullion and coin held in reserve now by the Government of India against the notes now in circulation?—Yes.

8980. What sort of capital would you keep for the Imperial Bank under this scheme, 25 or 30 crores?—You mean the total volume?

8981. I am talking of the general capital.—There again I should like to make a fuller answer if I may.

8982. Yes, please do.—I take it the total volume to-day is 11 crores 25 lakhs or something like that, is it not?

8983. Well, we will proceed on that basis.—And it has got no responsibility with regard to the note issue. It is only a State Bank in the sense of holding the State's deposits and other public deposits. It is not a State Bank in the sense of a note issuing bank. Therefore the greater liability which rests upon an issuing bank does not fall upon the Imperial Bank to-day. In view of the proposed increase of responsibility, of liability, for these demand notes, which would then become the notes of the Imperial Bank, the capital must be large and I am inclined to double it from 11 to 22 crores; 22 crores would be by no means an extravagant expectation.

8984. Then 22 crores or 20 crores would be the capital of the Imperial Bank?—It might be more but at least 20 crores.

8985. You can take any figure but let us put it at 20. Now of this 14 crores should be paid by the shareholders and seven crores to be allotted as full paid-up to the Government in exchange for their reserve; and the profits would then be distributed as if the capital, I mean all the capital, was put in by a set of shareholders?—Yes.

8986. Then you further suggest deductions, don't you?—I suggest deductions in the sense that I limit the total amount of profits divisible in dividends, 10 per cent., and the rest after a provision of 25 per cent., for reserve, should be shared equally between the proprietors of the Bank and the State.

8987. Do you think the Government ought to guarantee a certain dividend also?—I think there is no need.

8988. You make them take the money backward and forward free of charge in a later section and if so would you not guarantee the minimum dividend?—In view of the great privileges given it is absolutely unnecessary to guarantee a minimum dividend.

8989. Do you think 10 per cent. easily attainable without any question?—Oh, very easily.

8990. I see. Now later on in section 3, Professor Shah?—Clause (3) of section 72, you mean?

8991. Section 72, clauses (1), (2) and (3), you say, "In such matters the president of the board or the committee shall have a casting vote in addition to the ordinary vote as a member; and shall have the right to postpone the decision by a minute of dissent pending the orders of the Government of India or a resolution of the Legislative Assembly on the point involved." Why should he go to the Assembly at all? If he has the option pending the orders of the Government of India he will never go to the Assembly.—Very well.

8992. I mean bearing in mind the confidence you have in the Government of India, judging from the remarks with which you prefaced your evidence, why did you put "or" there and not "and"?—I certainly would not make it "and."

8993. Then you think in certain circumstances the Governor General in Council has to be given the right of a substantial voice in the management of the Imperial Bank?—Rules will be made under this Act as under all Acts for the detailed carrying out of provisions such as these. Now a bye-law or rule may be made to say that in such matters as the undermentioned, whatever they may be, the president shall await the final orders, if he dissents from the general board of directors, of the Government of India or the Governor General in Council as the phrase goes. In certain other matters, you would

lay it down in the bye-law I am thinking of, that the final orders may come from the Assembly.

8994. Yes, I was looking for some explanation of that in your explanatory note to clause 72. I did not find any there and I felt it difficult to understand your use of the word "or" there. Now that you have explained it I take it this will be a subject to be dealt with by the rules made under this Act. Now who will have the power of framing these rules?—The Governor General in Council, but always subject to this proviso that I would like those rules to be placed on the table of the Assembly to be approved generally, not statutorily passed in the way in which you would pass an ordinary statute but generally approved.

8995. You would leave the rules to be framed by the Governor General in Council but subject to the approval of the Assembly?—Yes.

8996. So that the Government would not be able to change the rules even if occasion may arise?—Oh, no.

8997. But the rules will deal with minute details of the Bank and if you prevent the Governor General in Council from altering the rules as experience warrants, don't you think you are rather creating . . . . . —A complicated machinery?

8998. Well, not only complicated; I was thinking more of a hard and fast machinery which may not satisfy the management of an institution like a big bank you have in view?—You see I take it that the contingency here contemplated and in which that rule will function, will be a contingency which is likely very rarely to happen. I think in the ordinary working of the Bank difficulties will not arise. In extraordinary situations and very special emergencies the difficulty may arise, and there of course, in view of the extraordinariness of the situation, we must be prepared to face the difficulty. That is all that I can say.

8999. All that I was wondering at was whether you are not facing too lively a risk. You say we must be prepared to face it. You can only face it up to a certain point. With a bank like that you cannot face anything?—Therefore I am not suggesting anything in the case of ordinary matters. I take it there will be hardly any difference of opinion in regard to those. In the actual day to day working of the bank there will be hardly any difficulty. But take a case like this. For instance, the proportions of loans made say to Indians and to non-Indians. I have frequently heard it said; that is a sore point in many circles, I have no proof of it, and I am only giving it to you as an illustration to the point we are discussing; there is a feeling abroad that the Imperial Bank is somewhat stepmotherly as regards Indian demands and a little more liberal with regard to European or English demands. I give it for what it is worth. I have only heard it said. Now it is possible in a case like that, though it is a mere matter of detail, a big demand comes up to the Board of which the Finance Member is president *ex officio*, a contingency which actually did occur two or three years ago when the piecegoods importers of Bombay repudiated their contracts practically speaking for the reason that they had counted on the two-shilling rate when they sent the indents and the rupee went down to 1*s.* 3*d.* when the goods were received. They were not prepared to take the goods which were actually received in Bombay and Calcutta. They go back on their contracts and the firm of managing agents—Europeans—come to the Imperial Bank for accommodation; I am merely putting a hypothetical case. Now that accommodation or a similar accommodation, let us say, has been refused to an Indian firm of the same standing as a European firm which has got it. The authorities of the Bank are prepared to grant it to the European-managed firm; and the Finance Member, for the sake of my illustration I assume, is unwilling to concur with the general directorate of the Bank wanting to give this accommodation. He wants therefore to hold the matter up, though it is a matter of detail, for instructions from the Governor General in Council. Such a case may occur; but it will occur only on a very big sum being involved, in the matter of some general question being involved.

9000. Or it may occur very often if there is any credence to be put in the sort of rumours which you just now elaborated before us. It will happen very often if things are so bad as rumour has it.—If that feeling is so widespread it may happen.

9001. Now to deal with cases of this nature do you think that the sort of board you have enumerated on page 401 of your book* would at all be either competent——?—May I have it read out to me, please?

9002. Yes. Section 19 runs: "The supreme control, direction and management of this Bank shall be vested in a Board of 25 directors made up as follows:—

(*a*) Eight to be elected, annually, one each by the shareholders of the Bank resident in each of the principal provinces of British India, provided that no province with a total holding of shares which does not exceed one-twentieth of the total share-capital of the Bank shall have a right to elect such a director;

(*b*) Eight to be elected in the annual general meeting of all the shareholders of the Bank acting together;

(*c*) Two to be elected annually by all the shareholders in all the Native States where the Bank has opened branches;

(*d*) Two to be elected by the Debenture holders of the Bank if any;

(*e*) Three to be nominated by the Board of Directors of the Imperial Bank of India, one of whom shall be a managing governor of the Imperial Bank, one from among the other directors of that Bank and one representing the Land Department of that institution;

(*f*) The remaining two shall be appointed by the Government of India from among the senior most officers of its Finance Department."

That is the constitution. This means that the directors will be spread all over India from Burma to the southernmost point and the westernmost point and the northernmost point. Do you think a directorate elected on such lines can deal with the day to day work of the Bank where credits have to be voted every day and perhaps withdrawn every third day?—Not the whole of these 25 directors will meet every day; I do not suggest that.

9003. I do not say you do but that as your board of directors——?—That is the board in control of the general policy. There may be a smaller council formed. I believe I have suggested, speaking from memory, a smaller working council to dispose of the business.

9004. That is your constitution of the Central Board as it is of the Imperial Bank at present, meeting once every two or three months or something like that. Then you would have a local board as at present?—At each branch.

9005. Therefore the contingency that you named just now of the Finance Member of the Government of India having to veto a certain credit would not arise from day to day?—No, it won't arise; I never said it would arise from day to day.

9006. That is just my point and therefore the question of vetoing would only come up once every three months at the most?—At the most.

9007. It cannot deal with the personnel; it will only deal with the general line of policy?—Yes, it can only deal with the policy of the Bank.

9008. And therefore it is a thing which is not difficult for the Governor General in Council to dispose of?—I do not say it is difficult for the Governor General in Council to dispose of. It is only when a question of the type I gave you as an illustration does arise that a special procedure must be adopted.

* See footnote on page 444.

9009. I was trying to point out to you that a question of the type you gave me as an illustration cannot be dealt with by your board, it must be dealt with by one of the local boards. It cannot therefore be dealt with by the Finance Member of the Government of India because that is a day to day affair?—But in a day to day affair over a certain limit the Bank may require the consent and concurrence of the whole Board.

9010. Now for that purpose the Central Board would have to nominate a working committee as they have at present. These 25 people cannot be expected to deal with any live issue?—But the working committe would have the Finance Member on it.

9011. You would have a working committee therefore where day to day transactions are to be considered?—I should like to make a distinction, when you say day to day transactions. The every day routine matters I exclude. I only wish to say that though it may be a day to day transaction in the sense that all these transactions arise every day, still in a case like the one I illustrated before owing to the magnitude of the sum involved or the nature of the transaction, it may become desirable for the Bank management, for their own good name and security, to have the authority and authorisation of the Finance Member who is the president of the Board.

9012. And you would have the working committee meet as a weekly committee of the Central Board with the Finance Member active on it?—Yes.

9013. Which means that the whole thing would be practically run by tho Finance Member of the Government of India?—I do not say it will be practically run by him only.

9014. That is just the point. I want to see whether you agree with that?—No; he can veto certain things; he can hold up or delay, but he cannot run the bank actively.

9015. He cannot veto a thing unless he is in touch with everything. You give him the power of veto and you have to attach to it the condition that he must be in touch with everything, if he is to exercise his power of veto with effectiveness; that is my point?—Yes, I see your point, but I would like you to understand my point also.

9016. I realise it very fully; but I see a difficulty in it. I suggest to you that the scheme which you have outlined on page 401 of your book is not feasible?—I am trying to point out to you that this Board of 25 directors need only meet once in three months at the most; therefore it does make it feasible by itself.

9017. I am quite prepared to see the use of it?—Very well, then; there is a smaller council out of this central board and that meets, let us say, once a week.

9018. Which means that only people from round about Delhi can go to attend those meetings? I want you to realise very fully that India is a place of long distances, and a man from Rangoon or Madras or Bombay or Calcutta cannot attend weekly meetings held at Delhi. You say you want the Finance Member to preside over these weekly meetings and the members must therefore be round about Delhi or say within 100 or 150 miles at the most?—May I point out that this difficulty can be got over by an arrangement amongst the members themselves for taking turns to be there for three months at a time. They are only seven and two can take turn for these three months.

9019. Reside at Delhi?—Yes, just as they do for sessions of the legislature. It no doubt involves a sacrifice of business; I do not deny that; but they need not stay there for the whole year, but only for a period of three months or any other convenient period, say two months; they might take turns and stay in Delhi.

9020. What sort of remuneration would you be prepared to offer to such a man to come and reside in Delhi or do you expect him to come and do the work gratuitously?—I do not like to suggest that it should be done gratuitously, because work done like that is hardly ever well done; but one analogy is the directors' remuneration that is given in England; a merely nominal fee would be insufficient; the remuneration would have to be a little more substantial.

9021. Could you name the sort of remuneration that you think a man whom you expect to stay for three months in Delhi should get?—I should say as a general figure, have it at the same level as the allowances paid to members of the Assembly or something like it.

9022. Twenty rupees a day?—Or say double that.

9023. Rs. 1,200 a month?—For the period of residence in Delhi.

9024. Do you expect a business man in Madras or Rangoon to come and stay in Delhi for three months a year on Rs. 1,200?—If he has a sense of public duty. And I do not forget also that there is such a thing as the telegraph or the through telephone to Bombay or Calcutta and other places. After all, work can be done by that method with his branch in all important matters in which his consent would be required.

9025. Did I understand you to say that you would expect questions of granting credits and other things to be dealt with by the office in Delhi by telephone or telegraph?—Oh, no; I did not say that; I said that the director residing in Delhi for three months could dispose of his private business, if necessary, by means of the telegraph or telephone.

9026. If he wanted to?—Yes; I quite freely recognise that Rs. 1,200 is insufficient for the total neglect of his business.

9027. Bearing in mind all the facilities of telegraph and telephone, etc., you think that it is feasible and reasonable to expect a successful merchant in one of tho parts of India to reside at Delhi for three months a year in order that he may be a director of the Imperial Bank? You do not think that would cut out the most useful section whom you really want on the Board?—No, Sir Purshotamdas, for this reason: that I take it that the men who will be selected for such posts would be men who are already at the top in their own business; they cannot be in a subordinate position as a manager or such like. . . .

9028. I fully see that: I do not want to interrupt you, but do you not think in India it often happens that men beyond a certain age do not have the necessary energy to do this work? Do you not think that this is a handicap?—I am inclined to think there are exceptions; men at sixty are active enough.

9029. You would then depend upon the exceptions not on the average?—After all I am thinking of twenty-five men or rather one-fourth of that number, out of a total number of several hundred millions.

9030. Referring to sections 80 and 81 (this is my last question) where you expect the Imperial Bank to remit money to and from all the branches for customers and non-customers, do you not think that you are giving a substantial set-back there to the indigenous section of bankers, namely the sowcar and the petty money-lender, without giving them any other *quid pro quo*, without giving the people any facility in the form of opening small branches of banks in various wayside places? If you take money to and fro without any charge, you are practically killing the Chetty, the Marwari and the Multani shroff?—I am also suggesting the opening of branches in a far more liberal spirit than is, even under the present constitution, provided for; and I extend banking facilities in such a way that the opening of branches would not be reduced; if anything they will be multiplied.

9031. Taking the total number of branches at 160, it is very inadequate according to your opinion?—Certainly; is it 160?

9032. Round about that?—I am very glad to hear it.

9033. They had 60 before and they have completed 100; or rather they have 164 in all. That is very inadequate?—That is very inadequate though.

9034. How many branches of the bank would be adequate before you can hit the Chetty, the Marwari and the Multani, who really finances the masses of India?—To cut them out altogether?

9035. Adequate to enable you to hit the Marwari, Multani and the Chetty classes thoughtlessly?—But I do not want to hit them thoughtlessly.

9036. When you take money to and fro without any charge at all, you cut these people out?—Yes, as far as remittance business goes.

9037. Can you afford to do it unless you had, not 160, but perhaps a lakh and sixty thousand branches of the bank?—That is what I have suggested—every village with a post office or a railway centre to have a branch or agency.

9038. For doing banking business?—Yes; either an agency or branch for every village which to-day has a post office.

9039. Do you mean that every village which has a post office should have a branch of the Imperial Bank?—Here are the words in paragraph **74**: " Subject to the provisions of the Bank Charter Act, the Bank aforesaid shall open branches as follows:—

(1) Wherever the necessity for the issue of currency notes requires a branch, i.e., in every town in India with a population of fifteen thousand inhabitants or more; or in every town which is the headquarters of district administration; or the capital of a province, or native state, or the junction of two railway lines or more."

9040. May I say that I have seen that? Have you any idea as to how many branches would be required?—It might eventually mean twenty thousand.

9041. Until those branches are opened you would not carry money to and fro free?—I say eventually it might mean twenty thousand; but it does not prevent us from having to-day arrangements with the post office in collaboration with the Imperial Bank that money may be remitted to and fro wherever there is a post office.

9042. You would therefore recommend that next year money should be carried to and fro free of charge and wait to develop your branches, as it is bound to take time?—It will take time.

9043. In the meantime you would take the money to and fro free of charge?—I would.

9044. You do not think that would hit these very useful classes?—If I may point out, the only person who would be hit is the post office in this case, because money orders pass through the post office, which charges a rupee for every hundred rupees remitted.

9045. But what about the village money-lender or the small shroff, the Marwari, the Multani and the Chetty—these are the three classes which practically finance the masses of India? As soon as you take money to and fro free of charge, what business is left to them?—This is only remittance business. The business of finance proper in the sense of lending money for a period is different and that business will still remain in their hands until these twenty thousand branches or agencies are established.

9046. I fully see that. What I was thinking of was that these men have several branches of the same firm in several parts of India and by transmitting money they earn a little on the money in transmission; what he earns as interest on the loan he takes risks for?—To that extent he himself would be a beneficiary by having these monies sent free of charge;

9047. You do not think it will hit him?—I do not think this will hit the general business of the Marwari or the shroff.

9048. (*Sir Alexander Murray.*) We have two mints in India just now and you propose that in future we should have one mint only?—Yes.

9049. And you give as the reason for it the commercial importance of Bombay?—And administrative convenience also.

9050. I have figures here showing that Calcutta now clears more cheques than all the rest of India put together including Bombay, and yet you consider that Bombay is of more commercial importance than Calcutta?—Bombay is more commercially important for this reason in my mind: that the commercial importance of Bombay is native Indian and not non-Indian, whereas Calcutta importance is largely non-Indian.

9051. Therefore you put it on a purely racial basis; because Bombay is Indian and Calcutta is European the mint should be in Bombay?—That is my point, yes.

9052. In spite of the fact that Calcutta now clears more cheques than all the rest of India, including Bombay, put together?—Yes.

9053. You say also for administrative convenience: do you not think that in view of the size and magnitude of India, you have got to cater from Rangoon on the one side, down to Madras on the other and up to Assam in the north and therefore it would be more convenient administratively to continue to have two mints?—I have an open mind on that; but I should prefer one mint from the point of view of administrative convenience, particularly in view of the fact that all the gold comes to Bombay first: Bombay is the port where all gold coming whether from Africa or from London will be consigned; therefore that will be the most convenient place. That mainly is the reason that induced me to make that suggestion.

9054. But in view of the fact that we have two mints and in view of the tremendous amount of business done on this side as well as on the other side of India, do you not think that it would be administratively convenient to have two mints?—It was administratively convenient in the days when we had silver standard and currency, because silver could come even from China or Japan, whereas I take it that when we have only a mint open for gold, and silver is demonetised in the sense I have suggested, then Bombay in my opinion would be more convenient in view of the fact that gold imports would come there.

9055. So far as the import of bullion is concerned, but not the distribution of the coins?—No, not the distribution of the coins.

9056. In one of the explanatory paragraphs to clause 18 referring to the suggested rate of exchange you give as one of the reasons if not the principal reason for maintaining fifteen rupees to the pound, that it is the rate which would cause the least disturbance in the mercantile world. Under existing conditions, is the rate that will cause the least disturbance in the mercantile world not the existing rate, namely, 18d.?—Under existing conditions, yes; if you go on keeping to that rate it might cause fewer disturbances. But I should never forget the fact that the existing rate has been brought up from a lower rate.

9057. You use the argument—and a very good argument, if I may say so, that the desirable rate is the rate that will cause the least disturbance in the mercantile world. Therefore, under the existing conditions 1s. 6d. is the rate which would cause the least disturbance in the mercantile world?—Everything considered, I don't think so. Everything considered, I think 1s. 4d. would cause less disturbance. But I always have my point that this is merely an internal ratio of a demonetised money to a standard money.

9058. But will you explain to us what you have in view when you say that under existing conditions 1s. 6d. is not the rate which will cause the least disturbance in the mercantile world?—When I say all things considered, I mean that 1s. 6d. itself has been brought up by artificial means.

9059. So was 1s. 4d.—But 1s. 4d. has the prescriptive fact behind it of having been in actual operation and working for 15 years.

9060. But 2s. was in existence for 20 years and yet did not stick to it?—2s. was in existence for 100 years before 1873, the 20 years that followed made the variation so much that you had to make

the alteration and you made the alteration into the merits of which we need not go. But after 1899 to 1914, you had 15 years of this ratio which, whatever the dislocation and difficulties must have been, allowed time for such difficulties to distribute themselves and be more even. Here is a question of a sudden further change from 1s. 4d. to 1s. 6d. which was a matter of the last two years. I am only speaking of the actual rate as it was in 1923 and in 1925. Now, you might take another year or more to completely realise the change I suggest. Though as it is a matter, I once again repeat, of the relation between a standard money and token money, it is relatively unimportant from the point of view of foreign trade and foreign exchanges. What would matter (and I grant it would matter) would be internal transactions made so far in rupees; and therefore I have already answered Professor Coyajee that such hardships will come and must ultimately be faced.

9061. And therefore the rate of exchange you say has no relation to the price levels in the different gold countries?—I don't say that.

9062. You mean that rate is immaterial because it is not a rate for the standard money?—I mean it is a rate of internal exchange between the standard and the token, which is not an exchange rate of foreign exchanges between currency in this country and currency in other countries.

9063. Therefore it is immaterial what the rate should be?—It is immaterial in that sense.

9064. You would not take into account that the price levels in India, the United Kingdom, the United States and other gold countries are round about the same level and therefore now seems the proper time for stabilising exchange at this rate?—No, I don't think so, because the price level will follow our gold standard then.

9065. One other point. You say in explanation of Clause 18, "The saving in the home charges would be a material consideration, perhaps, if the Indian people had the control of their finances and were able to employ the funds saved by this means in the remission of taxation or employment in industry." Can you indicate to what purpose the Indian Government have been putting the funds in the meantime? What had you in view when you wrote that?—The present Home Charges, to which this sentence relates, consist largely of payments to the War Office, payment by way of interest on loans made for productive or unproductive purposes, and payment by way of pensions and salaries or leave allowances to the officers of the Government of India, in England, and stores and so on. Now this saving, from 1s. 4d. to 2s., in the shape of our having to remit less rupees to get the same amount of sterling at the 2s. rate, would be, if at all, an effective argument provided the saving was really a saving to the people. I mean if the money saved was coming back in some form to the people. Rightly or wrongly, I look upon military expenditure as wasteful. War Office charges therefore paid by the Government of India to the War Office in England I regard as a matter of waste. If we even accomplish this saving by the manipulation of exchange and return that money to the tax-payer in the shape of remission of taxation that might be an argument. But if this money saved goes up merely in increasing the salaries of the Civil Service or in increasing the military expenditure, it is much worse than before.

9066. Supposing we had 40 million sent home on the basis of 1s. 4d. and 40 millions on the basis of 1s. 6d., that is a material saving. An actual money saving to the Government. Where do you suggest that money goes under existing conditions? Because you say that presumably the present Government of India is not able to employ the funds saved by this means in remission of taxation of employment in industries. Well, where else does it go?—Why, the increases under the Lee Commission's recommendations alone run away with one crore. On the illustration you yourself gave, 40 million remitted at 15 rupees to the pound will cost us 60 crores; at 13·1/3 it will cost us say 55 or 54 crores. On your suggestion it means a saving of 6 crores. You want me to answer the question where does that go? I say if you add in this way additional allowances to the Services, free passages, increased military expenditure, increased stores, you simply dissipate the thing, which really therefore makes no substantial material benefit to the people of India. We get the same service for increased charges.

9067. Therefore ,the reason why we should not stick to 1s. 6d. is that, if we do, we will save so much money that we will be able to give effect to the Lee Commission's recommendations; and in your opinion it is undesirable to give effect to these, therefore we should not remit at 1s. 6d.—My argument was that it may be a real saving if the money was not spent in this way but was to return to the people.

9068. What is the difference between what I say and what you say?—A great difference. I will point it out, if you will allow me to. When I say the money was returned, read it in conjunction with the whole paragraph, and previously I did state that even this saving was nothing in comparison with the loss involved in getting less rupees for our exports at the higher exchange rate. Because if your home remittance of 40 million pounds was made not merely at the 1s. 6d. but the 2s. rate, it will save you 20 crores. Then at 10 rupees, will have to remit 40 crores. At 15 rupees, 60 crores. We will say 60 crores. I say that saving is nothing in proportion to what we receive in export, to what we lose at the higher rate on export of goods. I say that above.

9069. I am speaking of what you say here. You say this saving in the home charges will be a material saving perhaps if the Indian people have control of their finances and we are able to employ the funds saved by this means in the remission of taxation or employment in industries.—I suggest that you should read the whole paragraph together.

9070. I have read the whole paragraph. I am quite willing to deal with the others in the same way. But I take this as a typical point in the paragraph.—My point is that if this money saved, 5, 6, or even 20 crores, was actually money returned in the shape of remission of taxation to the Indian people, then it would be a justification for saying that it is a real saving. But if the money saved was only spent up in increased expenditure, and a wasteful kind of expenditure at that, then I don't think it is right and proper to say this is a proper saving.

9071. And for that reason, exchange should be reduced from 1s. 6d. to 1s. 4d.?—You may say so if you like.

9072. (*Sir Reginald Mant.*) Professor Shah, was this Act of yours drafted with a view to introduction in the Legislative Assembly?—I should be very happy if it is introduced in the Legislative Assembly.

9073. But it was intended as a serious piece of legislation, was it not?—I am not a member of the Legislative Assembly. As much as an outsider can pretend to make it a serious piece of legislation I do so intend it.

9074. Do you consider that the first two clauses of this Act are *intra vires* of the Legislative Assembly?—No, not as the constitution stands to-day.

9075. Now, if you were to introduce a Bill in the Legislative Assembly, the first two clauses of which were patently *ultra vires*, might not an unfriendly critic say that this was not intended as a serious

attempt at legislation, but rather of the nature of a political manifesto?—The unfriendly critic would be most unfriendly and not at all a proper critic if he said that, in view of the fact that I myself point out these difficulties and suggest remedies. I am not unaware of them.

9076. In the explanatory notes to Clause 18 you say that you suggest a rate of exchange of Rs. 15 equal to one pound.—Yes, that is it.

9077. Now, turning to the details of the Bill, I find that the rupee is to be 1/15th of the mohur.—Yes.

9078. The mohur is to contain 108 grains Troy of pure gold?—Yes.

9079. The mohur will therefore not be equal to the sovereign and the rupee instead of 1s. 4d. will only be approximately 1s. $3\frac{9}{32}$d.—Yes, that is so.

9080. Why do you say then that you are retaining the 1s. 4d. rate?—Because it is the nearest. It is not the exact fraction but it is the nearest. It is a very small fractional difference. As we are talking merely of token money and its internal ratio to the standard coin, that particular precision I thought was not necessary. It is only for working purposes that I call it 15 to the mohur or 15 to the pound.

9081. *Chairman*: Professor Shah, the Commission is very much obliged to you for your assistance to-day.

(*The witness withdrew.*)

TWENTY-FOURTH DAY.

Monday, January 4th, 1926.

PRESENT:

THE RIGHT HON. EDWARD HILTON YOUNG, P.C., D.S.O., D.S.C., M.P. (*Chairman*).

Sir RAJENDRANATH MOOKERJEE, K.C.I.E., K.C.V.O.
Sir NORCOT HASTINGS YEELES WARREN, K.C.I.E.
Sir REGINALD MANT, K.C.I.E., C.S.I.
Sir MANECKJI BYRAMJI DADABHOY, K.C.I.E.
Sir ALEXANDER ROBERTSON MURRAY, C.B.E.
Sir PURSHOTAMDAS THAKURDAS, C.I.E., M.B.E., M.L.A.
Professor JAHANGIR COOVERJEE COYAJEE.
Mr. WILLIAM EDWARD PRESTON.
Mr. G. H. BAXTER, Mr. A. AYANGAR } (*Secretaries.*)

Mr. NALINI RANJAN SARKAR, accompanied by Mr. J. GHOSE, representing the Bengal National Chamber of Commerce, Calcutta, called and examined.

9082. (*Chairman.*) Mr. Sarkar, you are a member of the Bengal Legislative Council?—Yes.

9083. And Mr. J. N. Lahiri?—He has not come.

8084. Who is with you to-day as your colleague?—Mr. J. Ghose.

9085. You are both members of the Bengal National Chamber of Commerce?—He is not a member.

9086. But you are a member of the Bengal National Chamber of Commerce?—Yes.

9087. You have come to-day to assist us on behalf of your Chamber, from which we have had a memorandum* expressing its views. Could you tell us, in the first place, a few leading facts about the Bengal National Chamber. What is its membership in numbers?—About 300.

9088. What is the nature of the interests represented on the Chamber?—Indian business.

9089. What classes of business?—Export and import business, industries, buying and selling, some manufacturing also, jute, &c.

9090. Are they mostly merchants?—Yes.

9091. Bankers?—Some bankers also.

9092. Brokers?—Yes.

9093. Bullion brokers?—No bullion brokers.

9094. Exchange brokers?—There are some.

9095. Mostly produce brokers?—Yes.

9096. What is the nature of the manufacturing interests represented—jute?—There are some jute and cotton dealers also.

9097. When was the Chamber first founded?—I do not know the exact date—some time ago, about 15 to 20 years ago.

9098. Just in order to guide our questions, Mr. Sarkar, would you tell us the nature of your own business interests?—I am the manager of an Indian life assurance company.

9099. I will ask you a few questions upon the memorandum of the Chamber, and we understand that you will be expressing the views of the Chamber and not your own personal views. In the last sub-paragraph to paragraph 1 it appears to me there may be a misapprehension which should be removed. You say: "In England where there is gold standard and gold currency people like to manage their work through notes, cheques and bills." Is there in fact any gold currency in England? That is not the case now, is it? No gold circulates in England, does it?—At present it does not.

9100. In reply to question 1 you say: "The problem of balancing the budget in case of 1s. 4d. exchange rate . . . "—We have omitted that; the figures were incorrect.

9101. You wish to cancel that passage altogether?—Yes.

9102. That will save us some questions. We understand that the passage which relates to the increase of the Customs revenue with the reduction in the rate of exchange has been deleted in view of some imperfections in the calculations. In paragraph 2 the second sub-paragraph, you say: "There cannot be stability in India unless she adopts gold standard and gold currency with fixed ratio between her gold mohur and silver token rupee as almost all the countries with which she has trade relation enjoy gold standard and gold currency." There again I find some difficulty in following your statement. There is no actual gold currency in most of these countries?—In America there is.

9103. But there is no gold actually in circulation in America except to a trifling extent. Is there any country particularly in your mind which actually enjoys the use of a gold currency, not a gold stan-

* Appendix No. 43.

dard? If you go to America you never see an Eagle now-a-days. I do not know any country with which India has trade relations in which you ever do see a gold coin. Perhaps that is not a matter within your personal experience?—Yes.

9104. You say: "The stabilisation of the Indian rupee in terms of gold will tend to bring the prices of her agricultural products on the same level with those of other countries which have gold standard and improve the condition of the agriculturists and other producers." Agreeing that that is the effect of the stabilisation of the Indian rupee in terms of gold, might not the supporters of an exchange standard say that a sound exchange standard also stabilises the rupee in terms of gold?—But our experience is that it could not.

9105. Your critic on this paragraph might say: "In the past you had not a scientific exchange standard, because, for instance, there was no legal obligation to sell the medium of international currency." The point is, is it not claimed for an exchange standard that, when soundly based, it also stabilises the rupee in terms of gold? Would you agree to that?—No. Even if the foreign exchange is stabilised, internal prices cannot be stabilised by the operation of a gold exchange standard.

9106. Your reply is that, even though the exchange is stabilised, internal prices are not stabilised by an exchange standard?—Yes.

9107. If the foreign exchange is stabilised, then internal prices will, whatever the means of stabilisation may be, follow world gold prices, will they not?—That will not be always so, and it will take a long time.

9108. Could you explain to us why, if the foreign exchange is stabilised on an exchange standard without a gold currency, there will be less stability of internal prices than with a full gold standard?—Because a gold exchange standard is not automatic It can expand currency but it cannot contract in times of need.

9109. Is it your opinion that it is impossible that an exchange standard should be made to work automatically?—Yes.

9110. Let me put to you an organisation of the currency in which the paper currency and the gold standard reserves are unified under the control of a Central Bank, and a legal obligation is accepted by the Central Bank to buy and sell either gold for export or foreign currencies at the determined par of exchange. Have you considered whether that would have the effect of making the contraction and expansion of the currency automatic? I am putting to you an organisation of the currency system on an exchange standard in this manner—that the paper currency reserve and the gold standard reserve are combined, and are under the control of a Central Bank, and that the Central Bank undertakes the legal obligation to buy and sell, either gold for export or foreign currencies of gold standard countries, at the par of exchange, at whatever rate may be fixed, 1s. 6d., 1s. 4d., or any other rate. Would such a currency system as that make the contraction and expansion of the currency automatic?—No.

9111. Why would it not, because then, when you sell foreign exchange, your reserves would be contracted, and, if you have only one reserve, if your reserve was contracted your total currency would have to contract. But that, perhaps, may take you into regions of hypothesis which you have not yet considered. In paragraph 3 you are dealing with the rising or falling rupee, and you say at the end of the paragraph: "The falling rupee, on the other hand, impedes import and encourages export, but here also speculation reigns supreme, there being no knowing of its destination." Are those undesirable effects from a falling rupee? Then you go on: "It requires more rupees to discharge sterling obligations, causing thereby a deficit in the budget which can hardly be balanced without imposing duties on export." I take it you mean that those are the bad effects of a falling rupee?—Yes.

9112. A little lower down you say: "In view of what has been said above, the rupee should be stabilised in relation to gold standard at the ratio of 1 to 15." That would involve a fall in the rupee, would it not, from its present ratio?—Yes.

9113. Why then, one asks, do you recommend that the rupee should be reduced?—Fall only in the transition period; but it will be stabilised then at 1 to 15.

9114. Why do you recommend that there should be a fall in the rupee when you have been calling attention above to the bad consequences which result?—Rising and falling, I have drawn attention to both, rising to 1s. 6d.

9115. It is at 1s. 6d. now, is it not?—Yes; but the country has not adjusted itself to that rate.

9116. To what rate of exchange, in your opinion, is the country now adjusted?—1s. 4d.

9117. And it follows, in your opinion, that no adjustment has taken place to the 18d. rate at all? Would that be so, Mr. Sarkar?—Yes.

9118. In spite of its having prevailed for about six months?—Up to August 1924 it was 1s. 4d. About the question of contraction which you asked me before, balance of trade being in our favour, there will be rare occasions for contraction.

9119. I did not quite follow that?—You say that by remittance operation the reserve will be depleted. About the ideal currency you referred to.

9120. You are reverting to my previous question?—Yes. Then there will be rare occasion for us to send money because the balance of trade is in our favour.

9121. If I follow your replies upon this point, you are of opinion that either a rise or a fall is disadvantageous from that rate to which the rupee is adjusted, but you are of opinion that at the present moment the rupee is adjusted to the rate of 1s. 4d.?—Yes.

9122. On referring to the Calcutta index number, I find that the last time when the gold rate, that is the cross rate, was about 1s. 4d. the Calcutta index number was about 180; and I find that now, with the rupee at the cross rate of 1s. 6d., which is coincident with the sterling rate, the Calcutta index number has fallen to 157. Does not that provide rather *primâ facie* evidence that there has been a substantial adjustment to the 1s. 6d. rate?—But we see no evidence for that fall, because our railway rate is the same, the fixed wage is the same.

9123. This is the index number of prices. The evidence that it provides is the evidence as to general prices, cereals, food articles, oil seeds, cotton, textiles, etc. Have all these prices adjusted themselves?—The index numbers are not always reliable here.

9124. Let us dismiss the index number and see what other evidence there is as to the question whether or not conditions are adjusted to the 1s. 4d. rate. What other evidence would you suggest that we should refer to?—For a long time we are accustomed to that rate, 15 rupees to a mohur.

9125. For 25 years that rate ruled, but, on the other hand, a good many rates have ruled since 1s. 4d., have they not? I really want to see whether you have any other positive evidence in your mind as to this question of the adjustment of conditions in Inda to the rate of exchange. Of course one would naturally suppose that the first assumption is that things adjust themselves to the ruling rate; then if it is said that they are not adjusted to the ruling rate one tries to see what the evidence to lead one to that supposition is. I suggest that the index numbers do not support your contention, and I was wondering if there is any other positive evidence as to the maladjustment of Indian conditions to the ruling rate of exchange?—Wages remain fixed.

9126. Wages have shown no marked decline in rate?—No.

9127. It has been stated to us in evidence that, of recent years, there has been a general tendency to a rise in the rates of wages in India owing to general economic conditions, and it is suggested that the effect of a rise in exchange has been not indeed to produce a fall in wages but to prevent a rise. What would your opinion be on that?—I beg your pardon?

9128. We have received evidence to the effect that there has been a general tendency in wages in India to rise of late years owing to general economic conditions, and it is suggested that the effect of the rise in exchange has been not to produce a fall in wages but to prevent a rise which would otherwise have taken place, so that there is a masked effect from the exchange?—We have not considered that question from that point of view.

9129. What is your experience as to the general tendency of wages in India? Has there been a general tendency for wages to rise with the better education of the people, better accommodation and so on?—No; I don't think education has had any effect.

9130. You have not considered that?—No.

9131. Under question 5 you say that: "The control of the paper currency may be given to the Imperial Bank of India, the constitution of which should be so changed as to admit of effective Indian control." I wonder if you would expand that a little to show us just what you mean and what you desire?—Indians should be there; that is my committee's idea.

9132. Would you make it a part of the constitution of the Bank that such and such a proportion of the directors should be Indians?—Yes.

9133. What proportion?—In Bengal we have got 7 directors of which only 1 is Indian; we want 4 Indians.

9134. That is, a majority of Indian Directors on each Presidency Board?—Yes.

9135. Are there any other changes in the constitution of the Bank which you recommend as a preliminary to the transfer of control of the currency?—No.

9136. In recommending a gold currency in the next paragraph you say: "provision will have to be made for easy conversion and reconversion of gold and silver coins." If you are going to undertake the conversion of silver coins, that will require some additional gold, will it not?—Conversion.

9137. Yes, conversion of silver coins. You will have to strengthen your reserve, will you not, in order to undertake that obligation?—I do not think so.

9138. I suppose we may assume that the reserves are at present only so large as is necessary, first of all as regards the silver reserve to secure the convertibility of the notes into rupees, and, secondly, as regards the sterling and gold reserves, to support the exchange value of the notes and rupees. If they are only big enough for that purpose, now you are undertaking a further liability upon the reserves, are you not, and that is to convert the rupee into gold?—Our gold standard reserve and paper currency reserve both combined will be able to support that convertibility to begin with, because there will not be much demand for conversion.

9139. Have you attempted to estimate what the demand would be?—No.

9140. If you have not estimated what the demand will be, how can you say that the reserve will be large enough to meet it?—From our past experience. Even with 21 per cent. and 30 per cent. backing there was no excessive demand, on the paper currency reserve for rupees.

9141. I fear that I am not following you. There has been no occasion in the past in which the currency authority has undertaken to convert rupees into gold has there?—No; notes were to be converted into rupees.

9142. But now we are talking about the fresh obligation to convert notes and silver coins into gold?—But the analogy holds goods. There will be not much larger demand for conversion.

9143. Indeed, then, you have made an estimate, and your estimate is that there will be no demand for conversion?—There will be some demand for conversion; but it will not be excessive.

9144. If there is some demand for conversion, will you not have to supply an additional amount of gold in order to meet that demand?—We have got 100 crores worth of gold now in securities, etc. You can sell those securities.

9145. In your opinion the demand will be so small and so negligible that the trifle of gold that it will require you can spare from your existing reserves without depleting them dangerously for their present purposes?—Yes.

9146. You do not care to put a figure on it, only your argument shows that it really must be a negligible amount?—Yes.

9147. Do you think that is a safe assumption for a responsible currency authority to make when it is confronting this new obligation?—Yes; but gradually we shall get gold also, because we have got a favourable balance of trade.

9148. Have you made any estimate as to the amount of rupees in active circulation and the amount of rupees which are held up in various forms not in active circulation?—90 crores worth of gold in Government paper currency reserve and 220 crores in circulation.

9149. Of rupees?—Yes, rupees.

9150. That estimate is arrived at upon what basis?—From Mr. Jevon's book.

9151. You accept his figures?—Yes.

9152. Then you recommend that the two separate reserves should be amalgamated?—Yes.

9153. You again refer to the recommendation that there should be more of the Indian element among the directorates of the different circles of the Bank "to look to Indian interests." Would you expand the phrase "to look to Indian interests," Mr. Sarkar?—I can give you one illustration. In Bengal we have great difficulties in being members of the Clearing House and it is necessary for starting new enterprises of banking that this facility should be given.

9154. I am afraid I do not quite follow that. You say there is a difficulty in becoming a member of the Clearing House?—Yes; great difficulty.

9155. That is for a new bank?—Yes to start with and also for old banks.

9156. By what process does a Bank become a member of the Clearing House?—At the sweet will of the Imperial Bank.

9157. The Imperial Bank has a veto on the admission of a Bank to the Clearing House?—Yes.

9158. In your opinion are Banks excluded from the Clearing House that ought to be admitted?—At least more facilities should be given for their becoming members of the Clearing House.

9159. That is, they should be more freely admitted?—Yes.

9160. Is it your suggestion that there is a racial discrimination as regards membership of the Clearing House?—Yes, sometimes there is.

9161. Now as to the policy of the issue of notes of small value; why are you opposed to the issue of notes below Rs. 5?—Because it is not liked by agriculturists and country people. Its material is not good, it does not last.

9162. Have you considered the actual figures of the circulation of these small notes?—No I am speaking from my own experience of the country, Sir.

9163. What is your view as regards the evidence provided by the figures of the actual circulation of these notes. They seem to have gone very well and to have increased in circulation?—That might be in

the towns but not in the villages. It seems advantageous in the town to keep a note book in the pocket but in the countryside they do not take it.

9164. If the towns like them and the country does not, would that be a reason for not having them at all?—Yes.

9165. Why? If the towns like them why should not they have them?—It is expensive also.

9166. You are of opinion that the remittance operations of the Government should be managed by the Imperial Bank?—Yes.

9167. And, lastly, you say: "There should be no issue of currency against Hundis. Should there be a gold standard and gold currency the problem of seasonal currency would probably be solved." Would you explain to us how the adoption of a gold currency would assist in the solution of the problem of seasonal currency?—There will be an automatic inflow and outflow of gold.

9168. (*Chairman.*) You can only draw gold as the result of an ascertained favourable balance of trade, but you want seasonal currency to finance the trade before the actual moment at which such a balance is ascertained. Would not, in the normal case, the import of gold and the extension which that gave to the currency come too late to be of any assistance in providing the necessary seasonal expansion? You understand the question, do not you, Mr. Sarkar? You want the seasonal expansion of currency before the goods are exported or moved. The import of gold only comes afterwards when you have actually ascertained the balance. The bank will supply the demands from the currency, and gold will be available in the markets. Would you deal with any supplementary questions that my colleagues may have to ask you, Mr. Sarkar, in connection with your memorandum.

9169. (*Mr. Preston.*) In connection with the remarks you have made to the Chairman with regard to the Clearing House, have you any Indian banking houses who are members of your Association?—Yes the Bengal National Bank and the Co-operative Hindustan Bank.

9170. Are you aware of the composition of the Clearing House?—No, personally I am not.

9171. You said that the Bank were at fault in denying you or your members admission to the Clearing House and that the fault rests with the Imperial Bank?—That is what I have heard.

9172. Ah! but have you got any actual facts you can put your fingers on which will lead the Commission to conclude that the fault lies and rests with the Imperial Bank and not with the Clearing House?—The Clearing House means the Imperial Bank and some of the exchange banks. They are all European banks.

9173. But the Clearing House is an institution to facilitate the clearing of cheques. It is governed by a committee and the committee I understand and my own experience has always been that they have been ready and willing and most sympathetic whenever an Indian institution put before them a proposition for admission. All they desired in order to comply with the rules of the Clearing House was that those rules should be observed. The first rule is that you shall be nominated and secondly by another bank?—It may be so, I do not know, but the members of the Clearing House are all members of the exchange banks.

9174. You will admit that that is the proper method to adopt in requiring that anybody applying for admission to such an important body should be nominated by one of the banks and secondly by another member?—Quite true, but if it is a clique.

9175. Wait a moment, Mr. Sarkar. We will decide as to whether it is a clique or not presently. But first would you admit that this is a correct procedure or not?—Yes.

9176. Now add to that that it is usual in the case of a new bank for that bank to send in its balance sheet with assurances to the committee that that bank's position and that of those who are ruling the destinies of the bank fit them to become members of this important institution?—Yes.

9177. Thank you. Now as you know there are very severe and heavy responsibilities attached to every member of the Clearing House in so far as any new unit coming along is concerned because the Imperial Bank who act as the final clearers have got, and the other members of the Clearing House, mutually we clear one another's cheques and we give one another credit over a night for such cheques as are passed between one another and which might ostensibly run into very very big figures and we have experienced in the past that sometimes when we have given credit, that the funds have not been there in the morning to meet them. Now do you not think that it is again highly necessary and only the bounden duty of such a committee before it admits a new member to make sure in every possible way that such operations as they may incur by reason of the clearing of their cheques shall without doubt be fulfilled on the day following?—Our complaint is——

9178. Wait a little, Mr. Sarkar, we will come to the complaint afterwards. You admit that?—Yes.

9179. Now what is your complaint?—In admitting into the Clearing House Indians are not taken generally.

9180. But are there no Indian members of the Clearing House?—Only the Central Bank.

9181. Have you got any record of any of your members who have applied for membership and have been denied membership?—I don't know.

9182. Thank you. Now I will pass on to another subject. The Chairman spoke about the one rupee note. I think you told him that in your own personal experience you find that the notes in so far as the villages were concerned were not accepted and were only accepted in a sort of perfunctory manner in the big towns. Would you agree that the Banks in Calcutta find to-day that by reason of the one rupee note having been withdrawn from circulation they have got to keep in their vaults three times the silver they did when the one rupee note was in circulation?—I don't know.

9183. (*Sir Alexander Murray.*) Mr. Sarkar, I notice you say in paragraph 6, that to facilitate circulation of gold the sterling securities in the gold standard reserve and the paper currency reserve should be realised at once and kept in India in liquid gold. Do you know what is the value of the sterling securities held in these two reserves at the present moment?—63 crores.

9184. No 60 million sterling. Isn't there 40 million in the gold standard reserve?—Yes and 23 in the other. At 10 rupees that is 63 crores.

9185. But the value of them to-day if you realised them is not at 10 rupees basis. There is I think 40 million in the gold standard reserve and 20 million sterling in the paper currency reserve. That is all together 60 million sterling. Now there is interest on that let us say at an average of 5 per cent. Now 5 per cent. on 60 million is 3 million sterling. If you want the exchange to be at 1s. 4d., therefore that is equal to 4½ crores of rupees. Now if you were to hold that in gold then you lose 4½ crores in income?—But in England they do not invest in securities.

9186. One moment please. If you realise these 60 million sterling you may lose 4½ crores in interest?—Yes.

9187. Now I notice also in paragraph 3 when you are talking about the low exchange you say, "It requires more rupees to discharge sterling obligation, causing thereby a deficit in the Budget." Well now the annual remittances roughly are about 40 million sterling per annum. The difference between 1s. 4d. and 1s. 6d. is 12½ per cent. Well if you take 12½ per cent. on 40 million per annum that means about 5 million sterling. Converting that at 1s. 4d. it is equal to about 7½ crores. You tell us therefore that that will be a deficit in the Budget. Now this is taking two figures alone, namely, converting your sterling securities into gold means a

loss of $4\frac{1}{2}$ crores in interest and making your remittances home at 1s. 4d. instead of at 1s. 6d. means a loss of $7\frac{1}{2}$ crores—that is, 12 crores of rupees on these two items alone. How will you find the money to take the place of these 12 crores of rupees in the country's Budget?—In remittance operations it will not be $7\frac{1}{2}$ crores.

9188. Why?—Because our remittance operations come to about 30 million £.

9189. I think it was 40 millions last year; but never mind; we will not quarrel about ten millions sterling. The figure we have got shows that the remittances last year amounted to £40,770,000?—That includes railway and capital expenditure also.

9190. Everything?—But railway is now separated from the central budget.

9191. That is immaterial; the money has got to be remitted in some way. The railways are now run by the Government and it is the tax-payer who will eventually have to pay. But what I would like to know is whether you are aware that these 12 crores on these two items alone would result in a loss to Government?—By reverting to 1s. 4d. we shall get something more from the customs revenue; we shall also get something more in income-tax returns on account of the prosperity of the industries.

9192. You have not gone into any figures there to see how you would get the money?—No.

9193. And you lightly contemplate a deficit in the country's budget of all these crores of rupees?—The budget of the country should not depend upon the profit on exchange operations, and the interest on its reserves; the reserves are not meant for investment but to support currency.

9194. The point is that under the existing conditions there may be a difference of 12 crores of rupees if we give effect to your recommendations at once?—If you give effect to these recommendations that problem will always arise because you have already invested the gold standard reserve in England.

9195. But why give effect to that recommendation if it is to cost 12 crores?—Without gold standard and gold currency you have lost crores and crores, 35 crores in 1920 alone; in future also there may be a chance.

9196. That was one year's loss only; even admitting that that was so, this is to be an annual loss?—Perhaps an annual loss of 4 crores.

9197. No; 12 crores?—It will not be 12 crores.

9198. (*Sir Maneckji Dadabhoy.*) You state that when the control of the paper currency may be given to the Imperial Bank of India, the constitution of which should be so changed as to admit of effective Indian control; and in answer to the Chairman you stated that effective control in your opinion would consist of a preponderance of Indian directors; besides that, have you any further suggestion to offer as regards the change in the constitution?—No.

9199. Nothing further?—No.

9200. Then in the opinion of your Chamber the mere fact of a preponderance of Indian directors will be a sufficient guarantee to the general public that the control of the currency can be safely transferred?—Yes.

9201. How would you give this preponderance of Indian directors? By election? If it is by election, and if Indians are not elected, what would you do? What is the remedy you would suggest? It all depends upon the shareholders, and if Indians are not elected, what do you suggest as an alternative?—Nomination by the legislature.

9202. By means of the Assembly?—By Government, I mean; and the legislature will provide under which terms and conditions the nomination will be made.

9203. The mere fact of Government nominations—Indian nominations—by Government, do you think that will satisfy the people and that it will not be looked upon by the people with suspicion?—My Chamber thinks that it will not.

9204. Lower down, you state, in discussing about the issue department, that the bank should have two separate departments, the banking department and the issue department, which should keep accounts entirely separate from each other; the banking department will not be allowed to borrow from the issue department without proper security; am I to understand that you want the issue department to be run by the Imperial Bank of India merely as agents of the Government? May I gather that from your memorandum?—Yes.

9205. Merely as a representative and agent of Government, under certain strictly laid down powers. Is that your idea?—Yes.

9206. Are there many Indian banks in Calcutta?—Not many.

9207. In answer to the Chairman you said there had been racial discriminations in admitting Indian banks into the clearing house. Can you give me any concrete instances of Indian banks being refused admission?—I cannot give any instances now.

9208. In answer to the Chairman you said that if we introduced the gold standard there will be not much demand for gold; you practically said that the demand for gold will be negligible?—Negligible in this sense, that Government will be able to meet it without any difficulty.

9209. By your suggested method that the gold standard and paper currency reserves should be removed from London and kept in liquid gold?—Yes.

9210. You think that that alone will be sufficient to meet this?—Yes.

9211. But if you have not estimated the actual demand for gold that will be necessary, with what authority can your Chamber say that this gold standard reserve and the paper currency reserve will be sufficient?—We say that small transactions will still continue to be made in rupee coins. Why should there be any large demand for gold?

9212. But do you not think that a large quantity of silver from hoards will come out for the purpose of conversion when the gold standard is introduced?—We do not know of any large hoards of silver.

9213. Do you imply that you do not believe there are any?—Yes.

9214. There are no large hoards of silver in the country in the opinion of your Chamber?—Yes.

9215. Are there hoards of gold?—Some.

9216. You do not think much silver will come out for exchange purposes?—I do not think so.

9217. If gold standard is introduced in the country without gold currency, will it be popular with the people?—No.

9218. You mean to say that at the initial stage gold currency will be required?—Yes.

9219. To its full extent or only to a very partial extent?—To its full extent.

9220. But as the Chairman pointed out to you, even in England and America and in other countries where the gold standard has been introduced, there is no actual gold currency?—We have not yet reached that stage; we must pass through this stage first; we shall reach the ideal then.

9221. At the preliminary stage you require some amount of gold currency?—Yes.

9222. Have you estimated that amount of gold?—The rupee should be made a token coin and coinage of fresh rupees should be stopped.

9223. (*Chairman.*) Does that appear anywhere in your memorandum; that the coinage of fresh rupees must be stopped?—Yes.

9224. (*Sir Maneckji Dadabhoy.*) You do not think we will have to obtain gold from other countries; you think our own resources will be sufficient in the paper currency reserve and the gold standard reserve?—To start with it will be sufficient; but gradually we shall get gold as the result of our favourable balance of trade every year.

9225. But let me give you an instance. You know that America practically holds altogether three-fourths of the world's gold in her hands. If we introduce a gold standard and by some freak America refuses to part with her gold or puts some

obstacles in the way, what will be the result of the introduction of the gold standard? Can you help us in throwing any light on the subject?—But our goods must be paid for; those who take our goods must pay for them.

9226. Then only by our exports we must acquire gold; that is your idea?—Yes.

9227. Then you stated in answer to my colleague, Sir Alexander Murray's question about deficits in the Budget, that the Budget of the country should not depend on the profits on exchange. Am I to take it that you imply that the Government has no business to make up its deficits hy raising exchange?—Yes.

9228. And that all the deficits should be met by taxation or by economy or by other remedies?—Yes.

9229. (*Sir Purshotamdas Thakurdas.*) Just one question regarding the Clearing House; I understood you to say that the Central Bank was the only bank admitted to the Clearing House?—That is my impression.

9230. How many Indian hanks are there in Calcutta?—Three or four. The Punjab National Bank, the Bengal National Bank and the Hindustan Bank.

9231. Is your complaint regarding the Clearing House based on any instance of any bank having been refused admission to the Clearing House?—We have heard this complaint that they do not give facilities, and if it is an Indian bank they do not admit it.

9232. Surely, Mr. Sarkar, mere hearing of a complaint like that would not make you put in a complaint of this nature unless you can name any instances where a bank which sought admission to the Clearing House was refused admission?—I could send you instances to-morrow, if you like.

9233. You cannot name any just now?—No.

9234. (*Chairman.*) It is perhaps unfortunate that we cannot have them on this occasion, Mr. Sarkar, when we could examine you on them, but I suppose the next best thing is to havo any particulars you can give us?—I am sorry, Sir. Another member of our Chamber was to have come here to substantiate this, hut at the last moment he fell ill and I had to come; he is the managing director of the Hindustan Bank.

9235. (*Sir Purshotamdas Thakurdas.*) Regarding the answer to Question No. 15, can you tell us if your Committee mean that no more hundis should he accepted for issue of currency on any concrete calculations as to how the existing currency would be sufficient at the height of the season to finance the crops which had to be marketed?—That is after the gold standard and the gold currency is adopted. We say that it will be automatic. After the gold standard and gold currency come into operation, then there will be no more seasonal demands for hundis and covered securities.

9236. So that until gold standard and gold currency are in full operation does your Chamber feel that the issue of currency on these hundis should be continued?—Yes, but not against accommodation hundis.

9237. What do you mean by accommodation hundis?—Hundis issued to accommodate persons. Our opinion is that some of the hundis are not met within due date. Lots of protested hundis are presented every month in Bengal Circle.

9238. Do you mean the Imperial Bank are putting in protested hundis against emergency currency? I would like to understand that, if I have not understood your statement clearly?—If you issue currency on the basis of hundis and these hundis are not met within time, then it is not safe.

9239. But that is the loss of the Imperial Bank?—We want that the Imperial Bank should also not lose on this system.

9240. The Imperial Bank does banking business and may have a few clients on their books who ultimately turn out to be bad. How can they foresee that a certain client will not pay a hundi on due date? That is the banking risk which the Imperial Bank must take. Is there any other consideration that guided your Committee in tho remark that they made?—No.

9241. (*Sir Norcot Warren.*) Mr. Sarkar, referring to what Mr. Preston told you regarding the constitution of the Clearing House, I want to know whether you are now quite satisfied that the election of a candidate to the Clearing House is made by a committee of the Clearing House composed of representatives of other banks as well as a representative from the Imperial Bank and that the election is not made hy the Imperial Bank alone?—Yes, I am satisfied.

9242. (*Professor Coyajee.*) In answer to the Chairman you observed that even under the ideal gold exchange standard system there will be difficulties as to contraction of currency, when necessary. What are those difficulties?—Under the gold exchange standard system?

9243. The ideal gold exchange standard system. When the reserves are amalgamated, the paper currency reserve and the gold standard reserve, and there is a statutory obligation on the authorities to sell reverse councils in case of an unfavourable balance?—Occasions of such selling of reverse councils will be rare.

9244. Yes, but whenever it did arise, the reverse councils would be sold and the notes and silver of the proceeds would he locked up in the bank?—Occasions for such selling of reverse councils would be rare.

9245. Why?—Because we have a favourable trade balance.

9246. (*Professor Coyajee.*) Exactly. Therefore, more and more money will come in and prices will rise. If prices rise, the foreigner must buy less from us, and therefore the unfavourable balance must come.

9247. (*Chairman.*) I think I have nothing else to ask. Is there anything on which you desire to supplement the questions that we have asked?—No. I have submitted a separate memorandum giving my personal views; that is nothing to do with this.

9248. (*Chairman.*) Yes. I think it will be better not to confuse the two. The Commission is very much obliged to you, Mr. Sarkar, and to the Chamber for your assistance this morning.

(*The witnesses withdrew.*)

Professor H. STANLEY JEVONS, M.A., called and examined.

9249. (*Chairman.*) Mr. Jevons, you are a member of the Indian Educational Service, and Professor of Economics in the University of Rangoon?—Yes.

9250. Before that I think you were Professor of Economics in the University of Allahabad; and you are also the author of works on economics, particularly in relation to Indian conditions?—Yes.

9251. You have been good enough to provide us with a memorandum* which sets out your opinions upon the subjects referred to the Commission. I would, if I may, ask you a few questions just to elucidate whatever may appear to require elucidation. In paragraph 2 I see you suggest the Commission should recommend that no action should be taken on its Report until after an interval of consideration by the public and the Legislative Assembly. Do you see any disadvantages in such a course?—Well, the only disadvantage is that it tends to make it a strongly political question, it might tend to.

9252. I was thinking rather of the effect upon the market and the exchange. I imagine that prompt action upon any decision as to the rates of exchange is very desirable in the interests of commerce as a whole?—Of course if any proposals put before the Assembly were to make a drastic change, I admit that it would have a prejudicial effect.

* Appendix No. 44.

9253. The delay would have a prejudicial effect?—Yes, and the uncertainty introduced would have a prejudicial effect, but at the same time it does seem to me desirable that the Legislature of the country should have ample opportunity of discussing any proposed change.

9254. Perhaps we may say that, subject to the necessity for discussion and decision in the Legislature, the less the delay the better?—Yes. I did not mean by this, I may add, that the actual time and method of action should be decided by the Legislature, but the principle of the changes.

9255. In paragraph 3 you say: "The possibility of making contracts for future sale of bills or remittance is a second-rate protection of the merchant." What do you mean by "second rate" in that connection?—What I meant to say was that it was not an adequate protection, not so much protection as he would like. To begin with, it is in the long run expensive and secondly it does not protect him against competition of others who buy at a more favourable rate of exchange.

9255A. It is not a full protection?—No, and it is expensive.

9256. Expensive to whom?—I mean to the merchant; in the long run he must pay the bank their profits and their risk.

9257. Does the merchant pay, or may it not be said that this is one of the happy cases in which you can make the foreigner pay?—Of course this is one of those cases where the burden may be distributed to some extent partly over the home consumer, partly on the foreigner.

9258. You think the home consumer does not escape from a part of the cost of insurance?—He does not, —only in certain special cases.

9259. Then in the last sentence of that paragraph you say: "many exporters will probably lose about a farthing in the rupee, if not more, because they fixed forward contracts as far back as August." Do you think they could have avoided that loss by a more foresightly prudence in covering?—No, I do not think so. The uncertainty having existed in July and August of last year, the prudent merchant was bound to cover his sales and such a loss was unavoidable.

9260. A sudden and unexpected turn in exchange will falsify all calculations in the way of cover?—Yes. May I just add to that? What I had particularly in mind was that there was an anticipation that exchange would rise during this autumn which has not been fulfilled; that if it had been known that exchange would be stabilised at 1s. 6d. people would not have covered a fifth of their transactions.

9261. That was the unexpected turn in exchange to which I was referring?—Yes.

9262. In paragraph 4 you refer to the possibly beneficial effects of fluctuations in prices, particularly a rise in prices. I understand that you are referring there to variations in general world prices, not to local variations?—Well, most of these beneficial effects would apply to variations in prices throughout India. We are really, I take it, concerned in the question of stability of prices in India. I was pointing out that changes had taken place with certain benefits in England where prices have moved more or less in accordance with world prices; and the same reasoning would apply in the case of India.

9263. You make use of the word "prosperity" in that paragraph. Are you identifying prosperity with a rise in prices? "The economic history of the 19th century indicates that each wave of prosperity meant rising wages followed by a rising standard of living"?—Yes, on the whole with rising prices, because an expanding volume of trade, followed by increasing profit, it is what I call prosperity.

9264. Is the ultimate cause of the wave of prosperity a period of increased productivity resulting from good harvests and good weather?—The ultimate cause of the increased prosperity is widespread good harvests.

9265. Is not, at bottom, the increased productivity of the world due to good harvests?—That is what I maintain, yes.

9266. As regards these trade cycles, do you think the booms are worth the slumps?—Well, it is a very difficult question to say whether the balance will be advantage or disadvantage. But I am concerned to point out that there are certain advantages, provided the expansion of credit is not allowed to go too far during the boom resulting in a disastrous financial panic.

9267. You come to the conclusion in paragraph 5 that "It would seem highly undesirable to adopt the policy of stabilization of prices in India, when that might involve the continuous secular movement of exchange without any forseeable limit." I understand that you conclude then that an artificial fixation of prices independent of world prices at the expense of long term movements of exchange is undesirable?—Certainly, yes.

9268. Nevertheless, from what you say in paragraph 7, you would be prepared that this country, like any other, should take its part in an international convention for the stabilization of world prices?—Yes; I was careful to say "approximate stabilization."

9269. To what degree of approximation?—We want to avoid very violent variations and fluctuations of prices.

9270. You do not look upon this as an immediate practical possibility?—Not immediate.

9271. In the meanwhile, I understand from paragraph 6 you lay emphasis upon the stability to exchange for the purpose of encouraging capital investment in India?—Yes; both permanent investment and temporary movements of capital would be encouraged by stability.

9272. What is the importance to the Indian money market and commerce of short term investment of foreign capital?—The movement of capital to India during certain seasons has always been important, particularly important in pre-war times.

9273. Is there a substantial flow of short money?—I cannot say exactly what the present ebb and flow is, as compared with pre-war days. But I certainly say that it is desirable to encourage it.

9274. In paragraph 8 you deal with some considerations relating to the alleged prejudicial effect of a high exchange on Indian industries. Shall I be fairly stating the conclusion to which your argument brings you there by saying that, while prices adjust themselves comparatively soon, wages and certain other factors adjust themselves less quickly?—Yes.

9275. What, in your opinion, is the degree to which wages have adjusted themselves to the present rate of exchange and the prices ruling upon the present rate of exchange, the 18d. rate?—As against the rate of about 1s. 3½d. as we had in 1922?

9276. As against partial or complete adjustment to any previous rate?—I have not gone into the question numerically, but I fancy that there has not been, except possibly to some extent amongst unskilled labour, a reduction in the last three years corresponding with a rise of exchange.

9277. It has been put to us that, though the fall of prices followed by a rise of exchange and the consequent fall in the cost of living, has not led to any visible decrease of wages, it has, nevertheless, prevented a tendency, due to other influences, for wages to rise?—Exactly, that is true; but there has been a decrease of wages in some industries.

9278. What industries? Can you refer us to any special industries?—I am thinking about the cotton mill industry.

9279. In reply to an argument, as you say in this paragraph, advanced by Mr. Madon in his work, you come to the conclusion that the cotton mill company is more or less permanently burdened by the rise of exchange, perhaps to 30 per cent. or so of its cost of production?—Yes.

9280. But in view of the present rate you express the opinion that it does not place any serious burden

on the mill industry?—Yes; it is entirely a question of degree. I would put it that different business concerns have to face different kinds of risks that very often the question of at what level of prices they have purchased their machinery—invested their fixed capital that is—may make a much more important difference to them than this question of change of price level of the product due to exchange. That is just one of the numerous risks that they are taking.

9281. You are setting off against this, I understand, the fall in the cost of the various raw materials and the more sensitive figure, in relation to the cost of living, of the wages of unskilled workers?—Yes.

9282. When we come to paragraph 10, you develop what are in effect your recommendations for the future. You say that "India should take measures which will bring her into line with the most advanced countries of the world," and "this would be achieved by putting India definitely on the gold standard." So that your basis is the gold standard. I see also that you would define the rupee as a certain weight of standard gold?—Yes.

9283. Why would you define the rupee as a certain weight of standard gold rather than revert to the pre-war practice of fixing the ratio to the sovereign, a minor point but nevertheless a point for decision? —That is rather involved in the question of the rate of exchange that would be adopted. I mean to say if the Commission were to think that the rate should be 1s. 4d. or 1s. 8d., then the simplest plan would be to define the rupee in terms of gold taking the sovereign as the basis.

9284. Are there any implications in defining it as a weight of standard gold rather than as the sovereign?—No, except that is the usual practice in gold standard countries, and would have to be done whether the sovereign were introduced in circulation or otherwise.

9285. It might have the disadvantage that it would serve to make an additional formal distinction between a gold standard and a sterling standard?—I do not see how gold standard can be introduced without giving such a definition.

9286. The difference is merely between defining the ratio as a weight of gold or a part of a sovereign; it is purely formal?—In effect it comes to the same thing.

9287. I was wondering why you chose a weight of gold rather than part of a sovereign. You continue: "all paper money and silver rupees being merely representative of the standard gold coins"?—Yes.

9288. Then you would mint a gold ten rupee piece in India to an unlimited extent and issue it in exchange for gold, weight for weight, free of charge for coinage, so that gold might come into circulation so far as the people desire it. That, as I understand it, would be under your system the only way in which gold would get into circulation, by minting gold for the holders of gold?—Exactly; and by making notes and rupees convertible into gold.

9289. Where is that stated?—It is stated elsewhere.

9290. I had rather gathered that the only way in which gold was to get into circulation was by the minting into gold coins of gold brought to the mint by the holders?—No, not only that. I intended that the mints should be open to coin gold for anybody who brings it to be minted, or to the Imperial Bank for that purpose, but also that Government should mint gold coins on its own account for placing in the currency reserve and issue them when demanded in exchange for notes or silver rupees.

9291. Let us see how far you propose to go in that. Do you propose that it should be an option on the part of the Government to give gold against rupees and notes when it suited the Government or that it should be an obligation?—I should prefer to see it undertaken as an obligation, but in the transition stage it might have to be optional.

9292. It is no doubt due to a misunderstanding on my part, but it seems to me to have a very profound effect on the orientation of some of the recommendations in your memorandum that there should be an obligation to provide gold against notes and rupees, because—(tell me if I am wrong)—I had rather understood that the scheme put forward in your memorandum was that there should be something in the nature of an exchange standard, as referred to in paragraph 14. "To maintain the rupee at a rate selected it is only necessary to sell sterling securities of the paper currency reserve and gold standard reserve and to reduce the paper currency circulation by the equivalent amount," coupled with an optional circulation of gold by the coining into gold coins of any bullion brought for coinage?—I did not mean to restrict it to that. I might say that this statement in paragraph 11 that the rupee should be defined by law as consisting of so many grains of standard gold implied in my mind that the notes and silver rupees would be convertible into gold.

9293. It is not a necessary implication, is it? It might be the basis of an exchange standard to define the rupee as being equal to so many grains of gold. I think perhaps the difficulty in my mind may have arisen from paragraph 9: "All countries which have recovered from depreciated paper have adopted the gold standard, paper being the principal currency actually in circulation but being exchangeable into gold theoretically for any purpose but practically for export purposes only . . . I am of opinion, therefore, that India should take measures which will bring her into line with the most advanced countries of the world"?—It may be that I am using the word gold standard somewhat loosely as perhaps people have been doing in recent years, meaning a system where the law defines the standard coin in gold although the gold may not be fully in circulation, and there may be even difficulties as regards exporting it. In many countries still the currency conditions are abnormal as compared with what they were before the War, and it appears to me that whatever measures are taken for the reform of Indian exchange and currency they must be gradual and should proceed step by step from what I may call the modified gold exchange standard to the gold standard as fully developed, say, in England, or as it will be fully developed in England when gold is freely available without any restriction.

9294. Before we proceed upon the basis you have explained, just as regards your last sentence, are you assuming that England is about to return to a gold currency?—Not necessarily to gold currency in circulation. I refer to making gold freely available in any quantities—in small as well as large quantities.

9295. Full convertibility?—Yes, full convertibility, but not necessarily the habit of using gold in circulation.

9296. Do you think that would be a safe assumption to make as to the future?—Yes, I think it is a fairly safe assumption.

9297. Explaining that it comes rather as a surprise to find that assumption should be made, as it has been made to us not only by yourself but by several other witnesses, what are the grounds upon which you base that assumption, that there is to be a return to internal convertibility in the currency of the United Kingdom?—Well, the present conditions are still abnormal as the result of the Great War. The whole world is still suffering from a depression of trade which I anticipate will begin to pass away within the next 2 or 3 years definitely; and when that depression of trade is replaced by rising prices and growing prosperity, I feel certain that England will be able to go back to full convertibility for internal purposes, provided no extraordinary financial conditions arise in the United Kingdom such as continuous deficits in the annual Budgets, which is a possibility.

9298. Let me assume for a moment, for the sake of the discussion, the position of a defender of the Genoa resolutions. Would he not put to you that England has obtained a currency which is most

economic and elastic, and that there can be no temptation to revert to a less highly refined form of currency which is both more expensive and less elastic?—But I am not suggesting that England will revert to having sovereigns largely in circulation: simply that the present restrictions upon the issue of gold will not be maintained. So long as the treasury notes for £1 continue to be issued, I believe the public will prefer to use them rather than sovereigns. If the treasury notes were to be withdrawn and abolished and £5 notes only were to be issued then we should go back to using gold in circulation in England.

9299. What would be the motives for such a change?—Well, I cannot conceive of any motive for doing that. I think it would be a retrograde step to withdraw treasury notes of £1.

9300. Unless it be for the purpose of restoring gold in some measure to circulation, what is the object of making the internal currency once more convertible into gold?—Firstly, it creates general confidence; secondly, it stabilises exchange definitely without any kind of management other than the alteration of the bank discount rate.

9301. In the first place, is it a feature of the present day that there is any need for inspiring further confidence in the Treasury note?—No. By inspiring confidence I did not mean confidence in the note, but general confidence that the country had returned to normal conditions under which trading could begin again with the same assurance as before the War.

9302. Normality in this matter I imagine is, in the first place, confidence in the medium of internal exchange, and, secondly, stability of the exchange value?—That is one thing, yes.

9303. Otherwise that is normal only which has continued for a certain extent of time?—Well, I speak of the normal conditions which existed, say, from about 1825 up to 1914.

9304. It is confessedly impossible to restore, in all their sweet familiarity, the pre-war conditions, because the general price level has permanently changed?—Yes; but apart from the price level I think that the conditions of circulation of the currency could be restored and I think will be as far as that is desirable.

9305. Practically do you think that, in the United Kingdom, there would be any addition to the stability of the exchange value of the pound sterling to be made in comparison with existing conditions if we were to make the Treasury note convertible into gold for internal circulation once we have undertaken the obligation to buy and sell gold at par?—There would be a slightly greater element of certainty.

9306. Where would it come from?—I mean to say that gold could in certain circumstances flow into the banks and be collected; but I admit that the amount of additional security is very small. I am not urging it on that ground particularly, but simply because it seems to me the simplest method to take.

9307. The gold is now held in the bank reserve?—Yes.

9308. Will it make that gold any more available for supporting the exchange value of the pound sterling if part of it is put in circulation?—It does mean that there is some amount to fall back upon.

9309. Which is the more useful form of gold, from the point of view of stability of exchange, gold in reserve or gold in circulation?—Gold in reserve of course is more immediately available and is therefore essential. Gold in circulation is a secondary insurance, so to speak, I think.

9310. A second and doubtful line of defence. We are to proceed, as I understand, on the basis of your recommendation that the currency authorities should undertake the obligation to redeem rupee notes and silver rupees in gold?—As soon as they are in a position to do so.

9311. But you contemplate that silver rupees and half-rupees should remain unlimited legal tender?—Certainly.

9312. You lay no stress upon the importance of reducing the rupee from its position of unlimited legal tender?—I think too much stress is laid upon that point. We have seen that in France and in the United States there was no need found there to demonetise or reduce, shall I say, the circulation of silver or to limit the legal tender. On the other hand, Germany did so. But I see no inherent difficulty in following the practice followed in France and the United States in the seventies.

9313. We are told that it has two specific disadvantages: the first is that one of your standard coins is at the mercy of the price of silver in the silver market, which may bring it to a point at which it becomes profitable to melt it down. What importance would you attach to that?—I say that I would demur to calling the rupee a standard coin under those circumstances.

9314. If it is unlimited legal tender?—It is not a standard coin now, to make a proper use of the term. It is a token coin at the present time.

9315. Let us avoid that phrase then, if it would cause any difficulties. What importance would you attach to the disadvantage that there is the danger that a rise in the price of silver may threaten you with a depletion of your currency in circulation by melting down rupees?—I do not think that that danger is any greater because of the fact that you have got a larger volume of rupee currency actually in use in circulation; whether it is large, or whether it is comparatively small, as the silver money of England was, for example, in 1919, the time when the price of silver rose rapidly, it makes no difference in either case. The price of silver will rise above the melting point and difficulties will be experienced, however little silver may be actually in circulation.

9316. You mean that the difficulty is not overcome by the rupee being no longer unlimited legal tender?—No, it is not overcome.

9317. You must still have a large rupee circulation?—I mean the rupee would still be melted down if the price of silver rose above the melting value.

9318. It is put to us that if the rupee is not unlimited legal tender, if it is purely a subsidiary coin, then there can be no difficulty in substituting for it small notes or nickel coin or some other substitute in the event of such a move in the silver market?—The assumption that I am proceeding on throughout is that the Government proposes to follow what it has frequently announced as its policy, of wishing to give the people the kind of currency that they demand, and therefore it appears to me that any attempt to limit the amount up to which the rupee is legal tender is putting a certain pressure upon the public to use one form of currency rather than another, which, at the present stage of development in India, is quite unnecessary and perhaps even undesirable.

9319. What would your view be upon another aspect of this question which has been suggested to us in this connection, that the rupee is a coin to which the great uninstructed millions of India are accustomed as their familiar coin, and that, within any foreseeable future, it will be impossible to induce them to accept any other coin than the rupee as the current medium of circulation?—I entirely agree that the people throughout India regard the rupee as the particular coin, so that any tampering with the rupee as to weight or fineness would be most undesirable; but I think there is plenty of evidence that people in certain parts of India will very readily accept gold coins. In the Punjab and Malwa and Burma, and probably in many other parts, gold will be accepted along with rupees.

9320. The second disadvantage to which we are referred as attaching to the position of the unlimited legal tender of the rupee is the incidental circumstance that the note is convertible into the rupee, that this necessitates the holding of a silver reserve against notes and the complication of the reserves of the currency system, and that it is desirable to get rid of that complication by dethroning the rupee and

making the note no longer convertible into the rupee but convertible into some other form of currency?—It appears to me that that point of view raises unnecessary difficulties. I look at the whole question from the point of view of taking such action as is simplest and will involve the smallest possible amount of change. The notes being now convertible into rupees, I would have them remain convertible into rupees, but also convertible into gold at will.

9321. What, in your opinion, would be the effect upon the acceptibility of the note issue if it were no longer convertible into rupees, but, say, into gold?—The acceptability of the note would deteriorate, especially in certain parts of India where rupees are actually in great demand. For the financing of the cotton harvest or the rice and paddy harvest in Burma, for instance, small money is essential; and if people could not obtain rupees in large numbers notes would fall to a discount.

9322. Then next in your argument we come to the question of the ratio to be fixed. You recommend that the rate at which the rupee should be stabilised should be 18d., and for that you give the reasons in the following paragraph. You say: "It is obvious that the Government can keep it indefinitely at that figure." I understand that, in your opinion, in the foreseeable future, there will be no difficulty in maintaining exchange at that rate?—Apart from any catastrophe like the Great War.

9323. And such a catastrophe as that would upset any ratio?—Yes.

9324. That argues, as I understand it, that you consider, in the first place, that the reserves are adequate for that purpose?—Yes.

9325. And, secondly, that there has been a substantial adjustment of conditions in India to the 18d. rate?—I think substantial adjustment has taken place or is taking place.

9326. Subject to what you have said in paragraph 8?—Yes.

9327. Can you refer us, beyond the Calcutta index number, to any illuminating evidence to show that such an adjustment has, or has not, taken place?—I have watched chiefly the Calcutta and Bombay index numbers. The amount of adjustment likely to be needed still is, in my opinion, quite small, compared with the enormous resources of sterling which the Government has now at its disposal.

9328. Allowing that some adjustment has still to take place to the 18d. rate is that, in your opinion, greater or less than the adjustmonts which will be necessary in order to accommodate conditions to a 16d. rate?—I should say less, because the rate has been at or nearly at 18d. for over 12 months.

9329. You summarise this, in your expression, that there will be the least disturbance to trade and industries by making permanent the rate which has already been operative for several months, and you point out that that gives better protection to the currency system against a rise in the price of silver, owing to the higher rate?—The higher the rate the higher the melting point of the rupee.

9330. Having recommended the 18d. rate, I understand that you incline to the substitution for the sovereign of an Indian gold coin, in order to produce a more convenient relation?—Yes.

9331. You see no objection to demonetising the sovereigns now in India?—No. I see no great objection to that, because they are not in circulation; they could always be bought and sold as bullion.

9332. In effect, under your system holders of sovereigns could have them changed into gold mohurs free of charge?—Certainly.

9333. And, therefore, there will be no loss?—There will be no loss.

9334. That is, no doubt, the reason why you recommend that there should be no charge?—That is one reason.

9335. Are there any other reasons for that particular recommendation, that the coinage should be absolutely free?—I think that is desirable in order to encourage people to accept gold and to bring gold to the mints, whether it is in the form of sovereigns or bullion or ornaments or whatever it may be.

9336. You recommend the abolition of the gold standard reserve by fusing it with the paper currency reserve. Will you expand your reasons for that recommendation?—It appears to me that the gold standard reserve can only serve the same purpose, under a proper system of regulating exchange, as the sterling securities of the paper currency reserve, and therefore there seems to me no object in holding it separately.

9337. "Existing as a separate entity," you say, "of the gold standard reserve. Rupees must be locked up in India out of circulation to the amount equivalent to the reverse sterling drafts drawn on that reserve." I gather from that that, in your opinion, it is a defect of the pre-war system that the locking up of rupees against drafts on the gold standard reserve was an optional matter and not a necessity of the constitution of the reserve?—Yes, that is my opinion.

9338. And that must be a weak point in the basis of any system of reserves, that there should be a necessary relation between the amount of the reserve and the amount of the currency against which those reserves are held?—Exactly.

9339. Then you refer to the criticism that, if the whole reserve is constituted in this manner on a unified basis, the deflation might be to rapid, and you point out that this would be to a certain extent replaced by notes. You say: "The best reply to this is that the circumstances would necessarily have to be closely watched at the time the deflation was being carried out, and if the pressure on banks seemed to be becoming unduly severe, the notes cancelled on account of sales of sterling drafts could be to a certain extent replaced by notes issued against commercial bills of exchange." Stopping there, that is very much the present system of providing for emergency expansion of the currency?—Yes, it is the prosent system.

9340. You say further on: "or against Government of India securities actually purchased in the stock market." Do you consider that is a desirable alternative?—Not necessarily.

9341. Might it not be said that the bill, after all, is self-retiring?—Yes, I prefer the issue against bills of exchange. If for any reason it didn't seem desirable to adopt it, I would certainly rather have any necessary issue made against securities actually purchased than againt created securities. That is my meaning.

9342. How would you then provide for the contraction which ought to follow the expansion when the need for seasonal currency is over?—Well, Government, having purchased these securities, may sell them again.

9343. They would have to sell them again?—Possibly at a slight loss, though not necessarily.

9344. You could only say that that is a less refined method?—Yes, I prefer the bills of exchange method.

9345. Then you say that the permanent constitution of the paper currency reserve as defined required an unnecessarily large backing for the note issue?—I think so.

9346. What standard are you assuming as the standard of comparison to show what is necessary or unnecessary?—Well, I was considering partly the history of the drains there have been upon rupees and the ability which Government has always displayed to meet that drain until the very exceptional circumstances of the Great War, in 1918.

9347. In view of the experience in past years as to the possible contractability of the note circulation, you are of opinion that a metallic holding of 30 per cent. of the total circulation ought to be sufficient. Is that not rather the minimum that is found adequate in other countries?—Well, conditions, of course, are so different in most other countries that it is difficult to argue, I think, in this case on a comparison as to percentage.

9348. You do not think the experience of other countries casts much light on India?—No, not on this question of percentage. I don't think it does. I think the history of India is far more useful to it.

9349. What are the Indian conditions which make it, if I am right in thinking so, necessary to hold rather a smaller percentage than in other countries? —It must not be understood that this is meant to be the normal percentage, but the minimum. In practice the Government has been able to buy silver and ship it rapidly to India or buy it in India and convert it into rupees. It is always possible to replenish the rupee holding quickly.

5350. You think that is a real strength, even when one considers the difficulties of variability of the silver market and so on, both of supplies and prices? —Well, one has to take into account of course the question of the probabilities as to what is the extent of the drain that might be experienced. That figure sums up my opinion. I am afraid I cannot go further.

9351. In the next paragraph you express yourself decidedly against transferring to the Imperial Bank the sole right of the issue of notes in India, such notes bearing only its own promise to pay. Do I understand that your opinion there refers to an actual transfer of control and responsibility? Would it apply equally to a transfer of the management of the note issue to the Imperial Bank, the notes remaining the notes of the Imperial Government?—No. My objection to the second kind of transfer would be very much less. The objection to the first is the danger of its bringing confidence in the bank as a bank into question.

9352. If we assume that the reserve, which you have estimated in paragraph 16 is adequate, why should there be any weakening of the position by the transfer to the Imperial Bank rather than by remaining in the hands of the Government?—There would not be a weakening if that reserve was set aside in a separate issue department as in the case of the Bank of England. But if that reserve becomes part of the ordinary cash holdings for banking purposes then the bank would have to hold a very considerably larger proportion, I think.

9353. May I put it in this way, that in any case you would make it a condition of transfer on this basis of the reserves to the Imperial Bank that there was an issue department separate from the banking department?—Yes. I would make that condition, for the next 30 years.

9354. Supposing that condition to be made, would you still feel the same objections against the transfer? —Well, then, on that basis my objection would amount to the question purely of management, in which of course the opinion of the bank itself ought to carry considerable weight. The Imperial Bank has only been established and organised as it is at present for say five years and is still adding to its branches. It appears to me a little early to put upon it the burden of managing so big a business as the issue of notes for the whole of India.

9355. Let me put to you, Professor, one or two alleged positive advantages which might be derived from such a transfer, in order to ascertain your opinion as to the weight which should be attached to them. In the first place, it is said that the business of the control of the note issue is essentially banking business which can be better managed by bankers, than by Government officials with no practical experience of banking. What would your opinion be about that?—Well, I would reply that in many cases the State does issue its own notes. We have in England the treasury notes. In Germany they had treasury notes as well as the Imperial Bank of Germany notes. America has always had Government currency notes. I think that it is just the one kind of currency business which the Government can very well manage.

9656. In point of fact, is it not contemplated that there should be a transfer of the English note issue to the Bank of England at an early date?—Well, I am not aware of that myself.

9357. You would not contradict it?—No, I would not.

9358. And in other countries, generally speaking, with the march of civilisation has the tendency not been to trust to a central bank this particular form of activity rather than to the State?—Well, the general tendency of progress has been somewhat in that direction. The main line of progress, however, has been to take note issues away from private banks and put them into a central bank.

9359. Secondly, it is said that the reserves of a country of whatever sort—banking reserves on the one hand, reserves against currency on the other,—if they are to be employed in the most economical and efficient manner for the benefit of the country should be subject to a unified control, and that a division of control between the banking reserve and the currency reserve leads to lack of co-ordination and to inefficiency. What would your view be upon that contention?—I would say, not necessarily. That it is the business of the Government currency department to keep in touch with the banks, particularly the Imperial Bank, and other banks and the money market. If it fails to do that, of course, well—the system cannot be said to work so well possibly then. It is a question of the management—of the people in charge understanding what the principles are on which currency should be worked.

9360. You would not attach much importance to the contention that the management is easier when it is in one hand rather than in two?—I think it is undoubtedly easier, and therefore I quite look forward to the date when it would be desirable to transfer the rights of the note issue to the Imperial Bank. I think in my evidence I said, "within the next 10 years."

9361. This contention has been put in an even stronger form, that the control is now not in two hands but in three, the India Office, the Government of India and the Imperial Bank, and that there must be a gain in efficiency by having one rather than three authorities exercising an influence over the currency. What would your opinion be as regards that aspect of the triple control?—I should imagine that the Imperial Bank is in constant consultation with Government, both in India and in London, with the Secretary of State. I do not know, personally I am not acquainted, with any special difficulties having arisen from this triple control that you speak of.

9362. In paragraph 19 you suggest that "the members of the Commission should make themselves familiar at first hand with the very intricate business carried on in the Currency Offices of Calcutta and Bombay." How would it affect your opinion as regards the policy of transfer if one were to contemplate the possibility of the staff and work of the Currency Department being actually transferred to the Central Bank?—I should regard that as an essential condition in any case, because of the intricacy of the work and the necessity of carrying it on in the manner in which it has been carried on previously.

9363. You have not in fact assumed that in your previous reply?—Well, I think I assumed that when writing this. It appears to me that the kind of questions which arise in relation to a currency issue are not mainly questions such as Bank officials have to deal with from day to day, excepting the big questions of the volume of the currency and the composition of the reserve; and that all the technical details of the work are of a specialised character and would need always separate high officers in charge of the currency issue.

9364. In your next paragraph you express an opinion, which has already been expressed in evidence, that the transfer, if made, should be a transfer of management rather than of control?—Yes.

9365. The notes remaining as those of the Government. You refer again to the separation of the Banking Department and the Issue Department, and you say, " No regulations could be framed as to the backing of the note issue, unless the Issue Department was distinct from the Banking Department," that is to say, no regulations which would not impede ordinary banking business. Can you explain that. It is the common form of organisation in continental countries that there should be a single Department. Have they found it impossible to frame regulations for the issue?—Well, a regulation can be made of course to control the issue. There was the well-known elastic limit system which was in force in the Imperial Bank of Germany before the war, which is a question of controlling the amount of the circulation, and the Imperial Bank of Germany used to pay an increased rate of interest on issue above a certain fixed amount. But that is not the question I was dealing with here, which was, regulations as to the reserve to be held, and regulations as to the reserve when that reserve served the two purposes of the currency and of the banking reserve, which is going to hamper banking business.

9366. How does that come about: what is the hindrance?—Well, your regulations will have to provide the amount of reserve which the Bank must hold in relation to its deposits. You certainly place restrictions on the discretion of the banker which are quite unusual and which I should think would be found to handicap the bank in its ordinary work.

9367. It is not unusual, is it, to have a regulation defining the relation between the banking reserves and the banking deposits? Has that been found to hamper banking business in Continental systems? —I cannot definitely say as to that.

9368. Do you know of any type of central banking system which has operated under the regimé of such regulations?—I cannot say definitely about that; I am not aware of such regulations.

9369. Finally on these matters, in paragraph 21, you say: " The more the use of small notes is popularised the better." I gather that you recommend the re-issue of the one rupee note?—Yes, I do.

9370. You make certain practical suggestions for reducing the cost. Have you considered whether this would be at all likely to increase the danger of forgery?—I considered that point, and I certainly think not.

9371. What would be the advantages of the re-issue of the one rupee note?—Simply public convenience. The general body of the public prefer to carry one rupee notes to silver rupees.

9372. And the substitution in course of time of the expensive silver note by the economical paper note? —Yes; that is not, of course, an important point at present because we have a huge stock of rupees, but the convenience of the public.

9373. Now let me ask you to expand a little your fundamental recommendations as to the currency system. You recommend a gold standard in the sense that the note and the rupee are to be convertible into gold in course of time?—Yes.

9374. But that the rupee shall remain unlimited legal tender?—Yes.

9375. Will you sketch to us by what stages and by what mechanism you would propose to bring those recommendations into effect?—The first step would be to pass an Act defining the rupee as a gold coin of the weight and fineness that I have mentioned here, corresponding with the gold exchange rate of 1s. 6d., and to establish a mint in India for minting gold. Government might wait to see how much gold was brought into the mint before taking any further step, or it might decide that it would immediately make the rupee notes and silver notes convertible into gold, and in that case it would be wise to provide itself with a somewhat larger holding of gold in the paper currency reserve and to coin that gold into 10 rupee pieces. When it had placed in the paper currency reserve altogether, say, 50 crores of rupees worth of gold at this standard of 1s. 6d., then I think it could safely make the notes and silver rupees convertible into gold, possibly beginning in a tentative manner with certain restrictions as to quantity. That, however, could only be judged by experience. I am of opinion personally that if there were 50 crores worth of gold actually in the reserve, Government could safely make the notes and silver rupees convertible.

9376. That would be 50 crores in addition to the present holding?—No, including the present holding.

9377. Then, to be clear, I understand that you would discard, as it were, the mechanism of the exchange standard, and leave it to the export and import of gold under the impulse of natural forces to keep the exchange value of the rupee steady?—Well, I would not altogether discard it. I think the Government might sell Council Bills for its own requirements in London as it does at present, but it should not provide for trade purposes. So far as the demand exceeds the actual requirements of the Secretary of State, then it should be left for gold to flow into India.

9378. Would you accept any obligation on behalf of the currency authority to buy and sell the medium of international exchange?—No, I think I would accept no obligation.

9379. Then you would undertake, in the first place, as I understand, some form of limited obligation to convert rupees into gold; you would not undertake a full obligation at the outset?—I think I would undertake the obligation by making the statement that was made about 1908, if I remember rightly, that Government would undertake that as a normal course, so far as possible, they would issue sovereigns against rupees or notes. That would give them the right to refuse from time to time if it was so found necessary, judging by the nature of the demand. After they had tested the public demand for gold over a series of years, I believe as much as for 10 years, then the Government might undertake the final compulsory obligation of converting.

9380. Have you been able to form any estimate as to the first and last amount of rupees which you would expect to be presented for conversion?—Well, I think personally that provided no statement were made which would be in the nature of requesting the people to bring the rupees to convert them into sovereigns, no large amount would be brought for conversion. People at present are satisfying the need for gold through the ordinary market channels. I see no reason why they should want a much larger quantity of gold simply because we make gold coins coined in India available. Curiosity might impel some people to possess one or two of these coins at first, which might lead to a certain amount of drain; but after a time these coins would find their way back to the reserve; and to the extent to which they were actually taken out from circulation, which might happen in the Punjab and a few other parts of India, there would be a drain upon the currency reserve.

9381. There are two categories of rupees, as it were, to be considered, are there not; first of all the rupee in active circulation; and, secondly, the rupee that is held as a store of value, or, as it is called, a hoard?—Yes.

9382. Have you distinguished between those two in forming your estimate that there is not likely to be any very great presentation of rupees?—Certainly. I see no reason to anticipate that hoarded rupees would be brought out from hoards for conversion into gold, unless any kind of announcement were made by the Government which might be interpreted or distorted by gossip to mean that if they did not convert them now it would be difficult later on. I should certainly think that any notification to the effect that the rupee would become a limited legal tender, even if the limit were fixed at Rs. 100, would immediately give a shock to confidence and lead

people to bring their rupees out of hoards. That is one very strong argument against any attempt at limiting the legal tender of the rupee. Apart from that danger, it appears to me that practically nothing would happen. People are already buying gold at a price which corresponds with the exchange value, 1s. 6d., and so nothing serious would happen, unless Government raised exchange rate to 1s. 8d., say, at the moment they undertook to issue gold. Then, of course, gold would be selling much cheaper in the form of coin than it would be in the form of bullion, and there would be a rush to take the coins.

9383. Then on your basis you estimate that it is unnecessary to strengthen the reserves, except for the conversion into gold of a certain amount at present held in sterling securities?—Yes.

9384. The cost of your proposal would be the loss of interest on whatever part was thus converted?—Yes, say, about 80 lakhs per annum loss of interest possibly, and the loss due to the cost of coining. I would like to emphasise that I think it is most desirable that no seigniorage charge should be made for coinage, so that gold bullion and coin may be absolutely interchangeable.

9385. You would not anticipate that the result of these provisions would be that any large amount of gold would pass into circulation in replacement of rupees?—No, I do not think so. Presumably 20 or 30 crores might possibly circulate at first. But I think a good deal of that would come back; after that the circulation would gradually grow.

9386. Can the present reserves provide 20 or 30 crores in circulation without reinforcement?—Not at present; but, I say, if the holding were increased to 50 crores before any obligation were undertaken for conversion, it would be particularly safe.

9387. Supposing that, out of those 50 crores, 20 crores pass into circulation and are no longer in the reserve, do you think there will be no necessity to reinforce the reserve by some other means to replace these 20 crores?—No, I don't think so. I am assuming that when 20 crores had passed into circulation, the drain would have more or less ceased. Of course, there would be a recurring drain every autumn or the end of the year. That always happens. But then most of it comes back again. That really is a point which must be judged as the circumstances happen, and Government can always import more gold or it may simply allow the exchange rate to rise a little and gold would flow into the country.

9388. That is assuming, is it not, that the 20 crores which are in circulation are as available for the support of the exchange value of the internal currency as they were in the reserve?—No, I was not in that reply assuming that. The question of maintaining the rupee in the case of an adverse balance of trade is one in which I would recommend reliance upon the sterling securities of the reserve, that is to say, of the united reserve.

9389. You have depleted them to the extent of 20 or 30 crores?—Yes. At present we have over 70 crores valued at 1s. 6d., so that it leaves a large margin.

9390. Then it appears, does it not, that your calculation assumes that the present reserves are in excess of what they need be?—I think they are in excess of any reasonable demands, other than those of a great catastrophe.

9391. And that you can deplete them to the extent of 20 or 30 crores without unduly impairing the stability of the system?—Yes, I think so.

9392. With regard to the last question, assuming that you have not substantially reduced the number of rupees outstanding; that you have not, as it would appear, got rid of whatever drain there is to the rupee circulation; that, due to a rise in the price of silver, you have not rid yourself of the necessity of holding a silver reserve against your notes; and that you have not got any substantial amount of gold in circulation, what precisely have you gained?—You have taken one step on to the road of the development of the currency, towards a more perfected and stable gold system.

9393. And the next step would be what?—Well, the next step would depend very greatly upon the extent to which the public took to using gold. Personally, I should hold that they would not take to using gold if encashment of notes was always possible and forgery prevented; and I think the notes would continue to be at least as popular as they are now and would probably increase in popularity. Government then could go to the whole extent of making notes unconditionally convertible into gold, and silver rupees also convertible.

9394. Are you looking forward beyond that step?—Beyond that?

9395. Yes. Do you contemplate any further change, or would you be content to let it rest there?—I should follow the habits and customs of the people. If they gave up using silver, then one might for convenience of creditors limit the legal tender amount of the rupees. That I regard only as a subsidiary point. The abolition of the general use of silver currency must be gradual, in my opinion, if it is to be safe and stable.

9396. If you are looking forward to finally taking the step of limiting the legal tender of the rupee, if and when that period comes, then, as I think you told us, you would expect a large demand for the substitution of rupees by gold to materialise?—No, because I should think that any such limitation should be postponed until such period as rupees had come to be used so little in circulation that it would create no shock of confidence at all. It would be merely a minor change, following rather than leading, the habits of the people.

9397. If that happy day comes when the outstanding rupees have so far been reduced, that will only come by the rupees having been gradually presented for conversion into gold, will it not?—No; limiting the amount of legal tender for the rupee does not mean that the rupee would cease to be convertible. The Government would always convert any quantity of rupees presented. Therefore they would maintain their value precisely as they were before.

9398. I understood that you would not finally limit the legal tender of the rupee until the situation as regards the rupees outstanding had become manageable?—I meant rupees in circulation. By outstanding, possibly you are including rupees hoarded?

9399. Yes?—I am not. I meant not until rupees in circulation had become much less than they are now; till the common currency was notes, a certain amount of gold, a few rupees and small change. Then would be the appropriate time to limit the legal tender of the rupee.

9400. Then there would have materialised the demand for the conversion of hoards?—No; I do not think it would.

9401. I understood it was your opinion that, as soon as you limited the legal tender of the rupee, rupees would be presented for conversion?—If you did it now it would create a shock to confidence, because people simply would not understand your proposal. The rupees being so commonly in use, people would think that there was going to be less use for them than before. It would create amongst the ignorant masses a suspicion that the rupee might not be convertible at some later time. They would act on the impulse of their thought. In my other suggestion that ultimately the rupee might be limited legal tender, I am thinking of some date 40 or 60 years hence, when the habits of the people have changed and the great mass of the people are educated.

9402. If I hold Rs. 50,000, say, in a box in a back garden, and I am told that the rupee is going to cease to be legal tender and that I can have my rupees converted into gold, why should that make less of a shock to my confidence 20 years hence than it does now, whatever the conditions might have

been?—I think we are discussing two different hypotheses. When I say limited legal tender I mean simply that the amount which may be tendered in any transaction will not exceed the limit, say, Rs. 50. Silver rupees will still be legal tender, will still be convertible or receivable by Government in payment of revenue, so there will be no devaluation of the rupee at all, simply a slight loss of convenience according to the present habits of the people; and no loss of convenience according to the habits which will have developed before the time at which I suggest it should be put into operation.

9403. If that be so, why then, supposing you were at once to say that the rupee should be legal tender up to only Rs. 100, should it create this demand for conversion?—Because we have to deal with milliions of peasants and poorer classes in the towns who are very ignorant and who simply would not understand what this limitation of the amount of the legal tender means. They would assume that they may as well be on the safe side and convert now.

9404. My difficulty is no doubt due to a misapprehension of your argument. What is the change which is going to make that difference in the effect by the lapse of time?—Well the difference between, say, the Indian people as they now are and the English people as they were, say, in 1840 or 1830. There may still be some of them who will be illiterate but there will be among the mass of the people a higher general level of understanding and education.

9405. Are you quite confident that the circumstance that you limit the legal tender of the rupee is going to make no practical and material difference to the value of the hoarded rupees to a substantial amount? Supposing I hold 50,000 rupees to-day in a box, and the Government says that, in future, instead of being unlimited legal tender they are to be legal tender only up to Rs. 100, is that going to make no difference to the value of the rupees I hold?—Simply the difference due to the possible cost of carriage to the Government Treasury. If you happened to be situated far from any Government Treasury, you would have to take them there and convert them into notes if you wanted to make payments with them.

9406. But I can only tender up to Rs. 100 at a time?—Oh no, the limited legal tender is as between the members of the public and not as between the Government and the public.

9407. You contemplate that they should continue to be received in unlimited quantities by the Government?—Oh, yes, that is absolutely essential; for all purposes—for Government revenue and at the currency offices for conversion.

9408. Finally, a memorandum has, I think, been shown to you in which some suggested measures for the introduction of a gold standard and a gold currency are sketched. We have gathered from your answers in what respects your own proposals differ from these proposals; but would you point out to us, perhaps in general, what you consider the comparative disadvantages of the proposals contained in that memorandum?—My impression of the two schemes set forth in this memorandum——

9409. Let me make it clear. There is a scheme for a perfected gold exchange standard. I am not referring to that, but to the further proposals for a full gold standard?—I beg your pardon. My observation in general would be that the proposals here attempt to make too many specific recommendations and assume that the whole of the change must necessarily be carried out at once, which course would, as assumed in the memorandum, involve Government in considerable expense. What I feel is that looking at the history of currency changes which took place in the 19th century and also, in India, in the 20th century, we see how these changes have been made step by step in a certain direction, and that the result can be achieved more certainly, and without doubt, more cheaply in that way than by trying to devise a complete scheme and to put it into operation at a given time. Personally, I feel that if the Great War had not happened in 1914, probably the circulation of gold would have gone on gradually developing to a small extent, that the habit which had been established of cashing notes in sovereigns when required would have developed into a permanent custom and possibly by now into an obligation of Government; and that in due course—it might have been by now—the Government would have undertaken the minting of gold in this country; that the steps were already in progress for, as I might say, transposing the gold exchange standard ultimately into a gold standard, and that a stable system of currency was being developed. The fatal defect of that system as it developed was the ratio being at 1s. 4d., and the system being liable to be destroyed by the rise of the price of silver. It appears to me that we have to go back somewhat, to follow the same course that was followed before the Great War and proceed somewhat in the same manner, step by step. For that reason I think that any proposal to sell large quantities of rupees as bullion is wasteful. We know that the trade of India is constantly growing, the economic development of the country is proceeding, and so the rupee circulation is likely to be increased, even though we do put a certain amount of gold into circulation. I see no reason to suppose that in 10 or 15 years the whole of the silver now in the paper currency reserve might not be demanded in circulation. If melted up and sold now the equivalent silver would have to be coined again, perhaps 10 years hence, or even earlier.

9410. Your principal objection to the scheme is that it goes too fast?—It attempts to go too fast and therefore introduces certain complexities, and creates certain difficulties for itself which need not be incurred. I do not know if you wish me to make any detailed observations?

9411. I have got the substance of the assistance which we desire to obtain from you on that point?—You do not want any further observations?

9412. If there is any other heading which occurs to you in the way of criticism of these proposals, please mention it?—Well, I would like just to further observe that this memorandum seems to overlook the fact that in most countries which have the gold standard the gold has been brought into the country by the ordinary method of commerce. Government has sometimes, for instance Germany, had a *nucleus* to establish a system; but the idea that Government should necessarily have to provide most of the gold by purchasing it is quite unnecessary. By limiting their sales of exchange bills when exchange is favourable, putting up the rate, say, to 1s. $6\frac{3}{16}$d., they could always induce a special flow of gold into India.

9413. That is, of course, necessary under this scheme in anticipation of the bigger demand for gold as the result of the shock which you have described of limiting the legal tender of the rupee?—Yes, quite.

9414. Finally, I understand that the system you recommend is, in substance, this. It is a gold standard system in which you contemplate, in the foreseeable future, two forms of token currency circulating in the country, the note and the rupee, both fully convertible into gold; gold passing freely into and out of circulation by the normal processes through the Mint or in exchange for the token; reserves against those two forms of tokens, and a single reserve held by the currency authority for supporting the exchange value of the token?—Yes.

9415. No effort to force gold into circulation in the country or to accelerate the rate of conversion of rupees, but to allow that to take place in the natural process?—Yes.

9416. You would expect the natural process of the conversion or substitution of the rupee by the note in circulation, which would finally reduce the outstanding rupees to manageable dimensions?—Yes.

9417. And prepare the way for the reduction of the rupee somewhere to the position of a subsidiary coin?—Yes.

9418. Will you now be so kind as to deal with any questions which any of my colleagues may wish to ask?—Certainly.

9419. (*Sir Purshotamdas Thakurdas.*) Which are the main heads, Professor Jevons, in your opinion, which would require adjustment before stabilising, at any rate, before one decides on any rate of of exchange?—I am sorry I am not quite clear as to your question.

9420. You said, in reply to the Chairman, that you thought that the adjustment that had taken place at 18d. was larger in proportion to the maladjustment that still had to be adjusted?—No; what I stated to the Chairman was that I thought there was less adjustment to be made in prices, wages and so forth, to the rato of 1s. 6d., which has heen in force practically for nearly 12 months, than the adjustment which would have to take place if the rate were reduced to 1s. 4d.

9421. Therefore the adjustment that has taken place to 1s. 6d. from 1s. 4d. is greater than the adjustment which has still to he achieved between 1s. 4d. and 1s. 6d.?—Yes; the adjustment which has taken place in the past two or two and a half years from 1s. 4d. to 1s. 6d. is greater, as you say, slightly greater, than the adjustment which would have to take place from 1s. 6d. to 1s. 4d., because we have not finally adjusted ourselves to the 1s. 6d. level.

9422. Did you say just now for two and a half years? I thought that in paragraph 12 you say a permanent rate which has already been operative for several months?—I was thinking then (when I said two and a half years) of the time when exchange was last at 1s. 4d. up to the present time.

9423. You mean 1s. 4d. sterling or gold?—We were speaking of the amount of adjustment which had taken place in exchange changing from 1s. 4d. to 1s. 6d. Now, I find that it was late in 1922 or early in 1923 that exchange went above 1s. 4d., so that is getting on for three years.

9424. 1s. 4d. sterling?—Yes.

9425. Which are the heads under which the adjustment is not complete? Wages?—Wages is one certainly; and of course rents, too, is another.

9426. Rents for land?—Rents for agricultural land which were made say three years ago.

9427. Does that include Government revenue demand then?—No, because that being based upon settlements made at long intervals, these comparatively short periods of fluctuation with which we are dealing now have only to a slight extent affected the revenue. Of course, I am speaking of the fluctuations since 1920. In any settlements which were made at the period of very high prices following the war no doubt the high prices have influenced the Government revenue; but that is a different question from this point as between 1s. 4d. and 1s. 6d. which we are discussing just now.

9428. Would you look upon adjustment of railway freights also as necessary? Freight rates on goods carried both ways for export and import?—There are so many other factors that enter into the question of railway rates that this is just one of the considerations. Railway costs of course depend upon the price of fuel, that is, coal, and wages rates, very largely. In so far as those do not readjust themselves, then of course the railway rates could not be reduced; but I think that coal prices have and would readjust themselves; they are sensitive on the whole to exchanges; wages are not sensitive.

9429. Without the railway freight being adjusted? —No.

9430. Let me make myself more clear, if I may. It has been pointed out that when an article for export is sent out, there is a reduction, owing to the higher rate of exchange, in the rupees that the cultivator gets?—True.

9431. The total cost of export, the f.o.b. cost if I may call it, of any commodity includes the cost of purchase at the village centre, *plus* the railway freight?—Yes.

9432. If the railway freight keeps steady and does not undergo the necessary reduction of $12\frac{1}{2}$ per cent. that falls on the cultivator?—It does.

9433. Would you agree that that would be a bad maladjustment as far as the price available to the grower is concerned?—Yes; so far as the percentage of the price which it forms it would be. But it would only work out between 3 and 4 per cent. of the price.

9434. That depends upon what percentage the railway freight forms part of the whole f.o.b. cost of an article?—Yes.

9435. Do you think there are many chances of wages in India coming down?—You mean if exchange remains stable?

9436. Irrespective of the rate of exchange, have you heard of any case where the cost of wages has gone down or where it has been possible to put down wages? Once you put labourers on a certain scale, has it been possible in your experience to reduce those wages?—Well, I am not in a position actually to give you specific examples. It would require a distinct and special inquiry to do that.

9437. I was only asking whether you in your course of study of the Indian currency problems and the general economic problems of India, had heard of any case where wages had successfully been put down?—My impression is that the wages of agricultural labourers have fallen in many parts of the country, certainly within the last five years.

9438. A Government report that I have seen says that wages have in fact been rising, and reports from district officers show that the tendency has been for agricultural wages to rise; but perhaps you have one province in mind and I have another? —As I say I do not profess to be able to pronounce a specific opinion; it is a matter of collecting statistics and I have not set out to do that.

9439. Would you look upon any sort of reluctance on the part of wages to decline as a very important part of the maladjustment which it is necessary to rectify before fixing upon a rate of exchange, or would you overlook it?—I think it is a highly promising feature as regards Indian life: the fact that working people can show resistance to forces tending to reduce wages is one of the most hopeful signs that we have ever had in India.

9440. But what importance would you give it in deciding upon the rate of exchange to be fixed?—I should give it comparatively little importance, the reason being that it bears heavily upon the undertaker or entrepeneur, the factory or millowner, the employer whoever he may be; therefore it gives an impulse to him to substitute improved machinery to improve his methods of production. Unless you apply that pressure to employers in any country they are slow about improving their methods; and a fall of prices is generally regarded hy most economists as being a period during which improvements are made in methods of production, because employers find they cannot carry on without reducing their costs, and when they cannot reduce wages they begin to turn and consider what other ways there are of reducing costs.

9441. You would not give it any great importance, and you would leave the industries and the grower concerned to try to economise their costs of production?—Certainly. To put it briefly this way, it must result in such an increase of the efficiency of the industry after a period of years that the workman himself has so much greater output of wealth per person to correspond with your reduction of prices due to higher exchange.

9442. I see. Although you would call complete adjustment of wages to the appreciation of the rupee the real standard by which to stabilise your exchange, you certainly would not give the malad-

justment any great importance?—No, I do not think so.

9443. What happens to the industry in the meantime? I suppose the industry goes on?—The industry feels very sorry for itself.

9444. And gets a set-back?—Yes, a temporary set-back; but it gets also a great stimulus and incentive to improve itself.

9445. It is not a stimulus that you really seek?—It is the stimulus by which a great deal of progress has been made in the last one hundred years, undoubtedly.

9446. People have actually sought that stimulus in order that an industry may look out for more efficiency?—People have not sought it; but we know that the great period of falling prices in Europe, from, say, 1873 onwards to 1896, was a period when manufacturers had the greatest difficulty in carrying on, and all the inventions adopted were in the direction of reducing cost. It was a great period for introducing labour-saving machinery.

9447. Where you cannot avoid it, I mean, you would rather tolerate it; you would not seek that stimulus?—I would not exactly seek it; but I do not think it is anything that we should take any special measures to avoid, if I may put it that way.

9448. You would not even do that when you knew that an industry had to face foreign competition which was taking advantage of it, or rather over it?—When you come to that question, of course, it raises the big issues of Protection. It appears to me that if we take the Indian cotton mill industry as an example, at present we are suffering from a dumping, as it has generally been called, of cheap goods from abroad, largely from Japan; and the measures which most countries have taken for the same purpose are either temporary or permanent increases of their Customs duties. To consider that question as affecting the rate of exchange, that is to say, the system of currency which you are going to establish, appears to me to be going outside the considerations which should be taken into account.

9449. Any witness who urged any arguments based on that must be considered to be urging something which was not relevant to the question under reference to the Commission?—Exactly; for which they had better seek some other remedy.

9450. Even though it may be admitted to a certain point that the appreciation of the rupee does put the industry to a disadvantage?—It does entirely, temporarily.

9451. Would you still say that those considerations are irrelevant to our inquiry?—Yes.

9452. Professor, in your paragraph 12 you have this: "To raise exchange to 2s. would have a very depressing effect upon industries and agriculture; and the lowering of the general price level which would result must operate quite unfairly on debtors and tenants." You yourself include that as a relevant subject, do you not?—Unquestionably.

9453. Therefore any other witness who may be raising that point could not be said to be raising anything irrelevant to that inquiry?—When I said irrelevant, I was speaking of the foreign competition in Indian markets. However, if I may explain what is meant by this statement here, it is that any rise of exchange will tend to have the effects here stated: that is to say, to lower the price level in India, therefore to be a disadvantage to tenants as against their landlords; and to debtors as against creditors, and so on. If you raise the exchange to 2s. naturally the effects will be much greater than if you raise the exchange to 1s. 8d. And if you keep exchange at 1s. 6d., as it is now, then these effects will not come into force; and if you lower the exchange to 1s. 4d. the effects will be reversed and you will tend to raise the price of produce and tend to favour the debtors as against creditors and tenants as against landlords.

9454. Any rise or fall does make a difference to exports and imports?—Undoubtedly, it must make a difference.

9455. That is the conclusion from this. In this case you say the adjustment has partially been complete?—It has nearly been complete, I think.

9456. Now in paragraph 12 you mention only one reason why the rate of 1s. 6d. is more satisfactory than the reversion to 1s. 4d. and that is because of the rise in the price of silver?—Yes, that is the main reason. I do not know whether you would remember the evidence I gave before the Committee of 1919. In common with other witnesses I laid special emphasis upon the need of protecting the currency system from a rise in the price of silver, pointing out how the currency systems of England, France, Germany, and the United States had been put upon the gold standard at a time when the price of silver was still high, still round about 57 pence per ounce, and that consequently they had a high ratio, and that India in common with some other countries like Japan had attempted to get upon the gold standard, or at any rate upon the gold exchange standard, when the price of silver had already fallen considerably, and was therefore at a disadvantage in comparison with the countries that I have previously named.

9457. But those considerations do not apply to-day, do they? I mean the 1919 considerations were based on the higher price of silver?—Well, we cannot assume that the price of silver is necessarily going to remain round about 33 pence.

9458. What is your opinion about the future of the silver market?—Well, I cannot make any estimate of the future at all, but I do think there is quite a possibility of the industrial demand for silver growing considerably so as to establish a generally higher level of prices, round about 42 or 45 pence per ounce perhaps.

9459. One view put before the Commission has been that as India is not likely to be a buyer of silver for coinage of rupees, it is possible that the silver market may remain fairly quiet for the next five or seven years?—Oh, yes, I quite agree with that. But I am lookng further ahead. I take it that any system of currency now established is intended to be permanent; just as the English system established in 1816 still exists, with modifications made since the War. It was in operation practically for 100 years without change. So we may hope that the system to be shortly established in India will last a hundred years or more.

9460. With 90 crores of rupees in the Government treasury and with the gold coin which you suggest should be put into circulation, do you really think that after five or seven years India would require very large quantities of silver?—No, I do not say large quantities, but I certainly think that India might be requiring silver again after that time.

9461. For the coinage of rupees?—To some extent for the coining of rupees; and the ordinary industrial demands for silver will continue, of course.

9462. I see. You still think that, in spite of the gold coinage that you recommend, the consideration of the silver prices must be borne in mind in fixing a ratio?—Oh, certainly.

9463. You would not agree with those who think that this ought to be looked upon as a subsidiary consideration or secondary consideration?—No.

9464. At the end of paragraph 12 you mention that a valuation of 1s. 6d. would not make a round number of rupees and therefore you go on to consider the question of raising the exchange rate to 1s. 8d. in order to get an even number of rupees?—Yes.

9465. And you say this:—"By waiting for a general rise of prices throughout the world, a rise of exchange to 1s. 8d. could be effected without lowering prices in India." It may be without lowering prices in India, but it certainly would mean by depriving the Indian grower of the rise that those in other parts of the world get?—Certainly.

9466. Do you think that is a policy that should be followed by Government, except under very extreme circumstances?—Well, it is a question of opinion.

9467. I am asking your opinion. If you will give me the benefit of your opinion about it?—I do not think I should do it. Otherwise I should have recommended the rate of 1s. 8d.

9468. I just wanted to ask whether you think that should be done?—No, I do not recommend it. But I can conceive that the majority might be in favour of it.

9469. And you particularly would not recommend it because in case a fall in world prices should follow, you would not recommend lowering the ratio. It should only be done once and one way only?—It should be done only once and one way only, and only to a figure which Government can be sure of maintaining. But I think that Government could be practically certain of maintaining 1s. 8d. with the resources which it has. Of course, I am not saying that I advocate it, but I say the resources are such that Government could be practically certain of maintaining the 1s. 8d. rate—if it were adopted in the period of rising prices that I propose.

9470. But you made a very important condition there. In your paragraph 14 you say: "If the banks should not, in fact, work harmoniously with Government it might prove difficult to mantain exchange"?—Yes, that is an important condition.

9471. And in your book, Professor, you say not only the exchange banks but also the Indian bankers should be asked to work in co-operation with Government for this purpose. And you further say that the banks which the Government consult should not be greedy and should be satisfied with a certain advantage only?—Quite true.

9472. So, there are so many conditions which you lay down in this connection that, knowing human nature as we do, it may perhaps be very difficult of attainment?—No, I do not think so, if the need of it is understood. You see, there has been a great change in the banking system in England during the last 40 years or so, and during the last 15 years or so in America. In America, the banks as a whole are organised at any rate, if not specifically united, with the Federal Reserve system; yet, as in England, they have the practice of working together, consulting together, and meeting a situation which requires deflation by common action.

9473. Do you think that is feasible in India?—Not at the present moment, until bankers have discussed this problem amongst themselves.

9474. Do you think there is a beginning made among those even after the two or three crises we have passed through?—I do not think it is difficult to begin the education.

9475. Has it not been your experience that each one pulls his own way under these crises?—So far. But it need not continue so indefinitely.

9476. Now, in paragraph 23 you have this:—"I have recommended above that a rupee defined in gold should be the standard coin of India." May I ask whether till 1914 the rupee defined in gold was not the standard coin of India?—Oh, yes, it was.

9477. But, owing to expediency, the Government changed it from that into a subsidiary coin?—On the outbreak of war, you mean.

9478. Or after, a little later?—According to the most generally used definition of a standard coin we can certainly say that the sovereign was the standard coin of India in the period immediately preceding the War.

9479. But immediately Government ceased to issue it. I put that question in order to lead on to the next one. My point is that before the War or till the outbreak of War, a rupee was a $\frac{1}{15}$th part of a gold sovereign. Why do you, Professor, recommend a change in the ratio?—Well, for the protection of the currency system against a rise in the price of silver.

9480. Only for that and nothing else?—That is the main reason. The secondary reason is the disturbance to trade, and the adjustments which would be required to go back from the 1s. 6d. to the 1s. 4d. level.

9481. Now, the first one we understand clearly and we have discussed it. Regarding the second, you are not able to tell us which adjustments you think are complete and which are incomplete? I have mentioned to you the incomplete part of the adjustments as they have been put before the Commission. Can you tell us the complete part of the adjustments, if you remember those?—Well, the adjustments most likely to be complete are the prices of the staple commodities in the markets, and the wages of unskilled labour.

9482. You thnk they have been adjusted—wages of unskilled labour?—I say they are the most likely to have been adjusted. I am not acquainted with the actual facts.

9483. You are only naming these?—We know that in other periods of declining prices or rising exchanges, the rate of wages that have been adjusted have followed most closely the cost of living. That was the universal experience throughout the latter part of the 19th century in Europe.

9484. These are the two most important points you can think of?—Yes.

9485. Now, it has been suggested, Professor, that, since the Fawcett Committee reported (the difference then was between 1s. 3d. and 1s. 4d.), Government had to deflate in one manner for a period of very nearly six years. They did not coin rupees even on their own account and they therefore abstained from supplying the currency necessary for the (annual and) increasing requirements of the country. There also coincided with that period two of the biggest famines that we have known in India. It was owing to these reasons that the rupee finally became stabilised at 1s. 4d. and the adjustments took place. The famine acted very usefully for the adjustment of wages. It has therefore been suggested that, if 1s. 6d. is stabilised, a long and hard struggle may be involved as far as capital and labour is concerned. Have you any views about this?—Well, one can only speak of tendencies in these cases. The tendency is, of course, for the struggle to be more severe if we leave exchange at 1s. 6d. than if exchange were to be reduced to 1s. 4d. In fact, if exchange were to be reduced to 1s. 4d. the probability is that there would be no considerahle tendency for reduction of wages now.

9486. No demand for reduction of wages?—Yes. Probably there would be no strong demand on the part of employers to reduce wages, because they would find that prices had risen—in the majority of industries, I do not say all. The majority of industries would find it easier to go on paying the wages which prevail than they do now. But if I might be allowed to offer an observation, if such a consideration is to be taken into account, that is to say the advantage to the industrial situation within the next two or three years in an alteration of the exchange rate from 1s. 6d. to 1s. 4d., we are setting out upon a policy of stabilisation of prices and of an unstable exchange; and after a few years the reverse effects might come into play.

9487. Why do you say "unstable exchange"?—I mean, allowing the price situation in India to influence your judgment on the question of exchange; and once you do that, you are setting out on the alternative, for a policy of stabilisation of prices rather than stabilisation of exchange. The two policies must be kept clearly distinct.

9488. You mean you would only look at the stabilisation of the prices for the purpose of stabilisation of exchange?—You must make up your mind whether you are going in for a policy of stabilisation of exchange or stabilisation of prices. If, therefore, in considering about what exchange rate is to be established, you take into question the existing price level and the difficulties which in-

dustries find in paying the existing wages on account of the low price level, you are setting out to determine exchange on the basis of the "stabilisation of prices" principle rather than on the "stabilisation of exchange" principle. It just so happens that in the present trade and industrial situation we are at a point where it might be very advantageous to lower the rate of exchange and brighten up industry. Three or four years hence, with a considerable world demand for India's raw materials, and a highly favourable balance of trade, you might have the reverse effect of an outcry for exchange to rise, to prevent prices rising any higher, as the cost of living would be going up in India.

9489. Would that not adjust itself, I mean, the question arises at present for once, and that is more for the purpose of conversion of the rupee into your gold currency?—What I am trying to point out is that in taking such an argument into consideration you are allowing temporary conditions in trade and industry to influence your decision as to your permanent policy.

9490. Which you would not approve of?—I think the two must be kept separate.

9491. I was looking at the evidence you gave before the Babington-Smith Committee, Professor Jevons, and I see that you supplied them with a memorandum containing your considered views on the question of fixing the permanent rate of exchange, and you there attached very great importance to the rate, or any rate to be fixed, being liable to be maintained?—Yes, I did.

9492. Do you think that the same importance should be attached in fixing the rate of exchange now, or would you attach any less importance now than you did in 1919?—I attach equal importance now to the necessity of seeing that the resources are adequate to maintain the rate of exchange fixed.

9493. You have told us earlier that you think that at 1s. 6d. our resources are ample?—Yes. It is not a question at present of difficulty of maintaining exchange but of keeping it from rising.

9494. That would happen with any rate of exchange, would it not, if Government have a dead inoperative ratio on the statute which prevents gold from being tendered to Government at all?—The present situation is unsatisfactory, of course.

9495. Therefore it is contended there is nothing special that Government have done in preventing the ratio rising from 1s. 6d. Gold, which is a very necessary natural thing for the expansion of currency, cannot be tendered to Government at all? The whole question is whether with 1s. 6d. and with the liability of India to adverse balances of trade or to famines, you think the 1s. 6d. runs the risk of being disturbed?—I do not, personally.

9496. *Sir Maneckji Dadabhoy:* In paragraph 2 you make a very wise recommendation about the Legislature being consulted as regards the ultimate proposals. But will you please tell the Commission how you will guard against speculation and financial disturbance between the period of the report and the ultimate adoption of the proposals?—Well, it is impossible altogether to avoid such speculation; but if the period for adoption is not fixed, but left to Government to notify suddenly, then the uncertainties will not be of the kind to encourage speculation.

9497. Even if the period of adoption is notified by Government, still it would be some future date and some measure of speculation would be indulged in?—It need not be some future date, as was done in 1920. Government brought the alteration into effect immediately they made the notification, and that is still practicable, although the notification, is made in respect of a principle which has been determined on any time previously.

9498. Then in your opinion, on the whole, the advantage of consulting the Legislature would be greater than the disadvantage of financial dislocation?—Yes, I think so, on the whole.

9499. In paragraph 8, where you speak of the risk of a falling exchange, you maintain that the fall of exchange is quite sufficient to deter English investors from purchasing rupee securities otherwise sound and attractive. Now will you please tell the Commission that when the ratio remained steady for a period of 20 years at 1s. 4d., did it deter English investors from investing money in India and generally in Indian securities—the fact that it remained stationary encouraged English investors, when it was at 1s. 4d.?—The belief that it was likely to remain at 1s. 4d. undoubtedly was an encouragement to English capital to come out to India.

9500. But at that time the belief that it was going to remain steady for such a long period was not existent at the commencement?—I venture to differ there. The law had already been passed that gold was to be to the rupee at 1s. 4d. The sovereign was to be accepted, and that meant that exchange could not rise higher, and after 1900, when the gold standard reserve was established, there was a practical certainty that exchange would not fall.

9501. So it induced further investment in the country?—I think so, especially after 1900.

9502. Take the reverse case now. You said that this high exchange has continued now for a period of nearly 16 months, at 1s. 6d.; has it brought any money from England during this period?—No, not much I should say.

9503. Any at all?—I cannot say. The point is that people would not be inclined to invest their money in rupees in India much for the reason that, for all they know in England, the rupee might go down to 1s. 4d. next year.

9504. In reply to the Chairman, as well as in answer to Sir Purshotamdas Thakurdas, you stated there has been a substantial adjustment in India to the 18d. rate?—Yes.

9505. When did this substantial adjustment commence; how many months ago?—Well these adjustments must take place practically *pari passu* with the change of exchange in regard to the prices of certain staple commodities; and in regard to all other things they take place side by side. Without an enormous investigation one could not say exactly at what dates the adjustments came about.

9506. Is it not very material in order to correctly find out if the adjustment had actually taken place to see when it really started?—I think economists would be very pleased if the Commission would undertake that investigation. They would require a sufficient staff, to do that, and I am certainly not able to say.

9507. And the adjustment is not complete even to-day?—On theoretical grounds I should say it is not yet complete.

9508. And one cannot state when the adjustment would be quite complete?—In a sense these adjustments never become complete because before they become complete something else causes a disturbance.

9509. Supposing a famine starts next year, all these arguments will be of no use?—The causes influencing prices are so varied that questions of exchange are only one of them.

9510. If we have a famine next year or a couple of years after, all these calculations are upset?—Well, I would not say that a famine next year or the year after would upset the exchange if it be stabilised at 1s. 6d. I think our resources are quite sufficient to maintain it, even in the face of a year's famine. But if we had a series of famines so severe as those of the 'nineties, there might be a temporary difficulty. The only resource that the Government of India would then have, after it had exhausted its sterling resources, would be to raise loans in London; it could raise £10 millions in London in a moment, and so there would be no difficulty in tiding over a period of adverse balance.

9511. In paragraph 12, among three or four reasons you have given for maintaining the 1s. 6d. rate, you have stated about the protection to the currency system against the rise in the price of

silver. Sir Purshotamdas Thakurdas has asked you already a question or two about it. Now in this protection which you now speak of, there is the margin of safety?—Yes.

9512-3. So it is a mere question of grade? You want a gradual protection. If you first make it 1s. 8d., a further protection at 2s. After all it is a question of graduation?—Yes.

9514. Now taking all the circumstances into consideration, the present price of silver being 31d. and the silver at 43d. per ounce, is not the margin between 31 and 43 a sufficient margin?—I should prefer to see the margin greater.

9515. As a matter of over-caution?—Yes, as a matter of caution.

9516. On no other grounds but as a matter of over-caution?—As a necessary caution, in my opinion.

9517. The price of silver during the War went up to such a high pitch. Generally if you look to the past history of the value of silver, it has not shown so much variation. It was the extraordinary circumstance of the War that raised the price of silver?—Up till 1870 the price of silver always remained somewhere near 60d. per oz. Then came the long fall in the price of silver which has involved India in difficulties; and since the beginning of this century we have seen on the whole a tendency to rise, which became enormously accentuated during the War.

9518. And then, after the War, it has gone considerably down?—Certainly, but not to the pre-war level. Its ratio to gold is higher now than it was in pre-war times.

9519. So, do you not think that as England has now restored the gold standard and all other countries have resorted to it, if you introduced gold standard into India, it is very unlikely that the price of silver will vary, because there will not be large demand for silver in the country except for jewel purposes, for use by Indian women?—I admit that the Indian demand is less, but I have already mentioned that I think there is quite a possibility of the industrial demand for silver in the world in general expanding very considerably within the next 20 years, in the vast increase of industrial uses of photography in which although much silver is recovered yet involves a certain amount of waste.

9520. So in your opinion, for industrial purposes silver will be largely in demand in the next 20 years?—Yes, in my opinion.

9521. And therefore we should adopt the over-caution of keeping the ratio at 1s. 6d.?—Yes.

9522. Do you want this to be a provisional ratio or a permanent ratio, because throughout your examination you were very sceptical so far as the maintainability of the ratio is concerned. You stated that it would be easier to maintain a ratio at 1s. 6d. than at 1s. 4d.?—No, no; it is necessarily easier to maintain a ratio at 1s. 4d. than at 1s. 6d.

9523. It is easier to maintain 1s. 4d. than 1s. 6d.?—Yes. I consider there is adequate reserve to maintain it at 1s. 6d. and possibly adequate to maintain it at 1s. 8d.

9524. You stated that when we adopt a gold standard, gold in demand would not be very much if we avoid inviting the public generally to exchange silver for gold?—Yes.

9525. Will it be fair to the country that when we adopt a gold standard we should withhold from them any such information? That is, that the Government and the banks will exchange notes and silver for gold?—It all depends on whether the limitation of legal tender is imposed; and I have said that it is desirable not to put any such limit on the amount of rupees which should be legal tender.

9526. So your system is that in course of time we should introduce gold standard gradually?—Yes.

9527. Meanwhile the rupee should continue to remain unlimited legal tender?—Yes.

9528. And the silver currency should side by side subsist with the gold standard?—Certainly.

9529. Will not the existence of the silver currency, I mean keeping the silver rupee as unlimited legal tender, affect or interfere with the success of the gold standard?—It depends on what you mean by "success of the gold standard."

9530. Making it quite a success?—What I regard as a successful gold standard is that you could maintain a gold exchange, a stable gold exchange, and allow the people to have such gold as they want in circulation. If they use gold, then, of course, the rupees would become redundant. But if they prefer using rupees, then a small amount of gold will be in circulation; but the system will be successful.

9531. As regards paragraph 17, where you advise not to transfer to the Imperial Bank for a further period of 10 years the right of issue of notes, I understand that you will have no objection to the transfer of the note issue to the Imperial Bank provided they merely act as Agents for the Government?—I certainly think there will be no strong objection to that, provided the Bank is fully willing to undertake the responsibility.

9532. That goes without saying; it is on that assumption, of course.—Yes.

9533. And as the Chairman said, or drew your attention to the fact, that if the whole department, the present existing department, will be bodily transferred and placed under the charge of the Imperial Bank, there could be not much difficulty.—Yes.

9534. *Chairman:* Have you given any consideration to the question of the ideal constitution of a Central Bank for India? It is not included in your memorandum and I thought perhaps it might have escaped your attention?—No; I am quite satisfied with the Imperial Bank as at present constituted.

9535. There are no substantial fundamental changes in principle as regards the constitution of the Imperial Bank which you desire to suggest?—No; not apart from the question of note issue which we have already discussed.

9536. The separation of the issue department from the banking department?—Yes.

9537. *Chairman:* The Commission is very much obliged to you for your memorandum and for your assistance here to-day.

(*The witness withdrew.*)

TWENTY-FIFTH DAY.

Tuesday, January 5th, 1926.

PRESENT:

THE RIGHT HON. EDWARD HILTON YOUNG, P.C., D.S.O., D.S.C., M.P. (*Chairman.*)

Sir Rajendranath Mookerjee, K.C.I.E., K.C.V.O.
Sir Norcot Hastings Yeeles Warren, K.C.I.E.
Sir Reginald Mant, K.C.I.E., C.S.I.
Sir Maneckji Byramji Dadabhoy, K.C.I.E.
Sir Alexander Robertson Murray, C.B.E.
Sir Purshotamdas Thakurdas, C.I.E., M.B.E., M.L.A.
Professor Jahangir Cooverjee Coyajee.
Mr. William Edward Preston.

Mr. G. H. Baxter.
Mr. A. Ayangar. (*Secretaries.*)

Mr. Norman Murray, called and examined.

5938. (*Chairman.*) Mr. Murray, you are one of the Managing Governors of the Imperial Bank of India?—Joint Managing Governor of the Imperial Bank of India.

9539. In order that we may have it on our record, how long have you occupied that position?—I was confirmed in the position a year ago, but I have acted in it on two previous occasions.

9540. Has your experience of banking been in the Imperial Bank of India?—Originally in the Bank of Madras which was one of the Presidency Banks. There were three Presidency Banks from which the Imperial Bank of India was formed.

9541. You have been in the Imperial Bank of India since its formation?—Yes, Sir.

9542. And that is an experience lasting over how many years?—Close on 30 years in the East.

9543. We understand that in coming here to-day you come to give evidence based on your experience of business in the Imperial Bank of India, but given in your personal capacity?—I should like it on record that I am here entirely in my personal capacity.

9544. Your replies will not be given, as it were, on behalf of the bank?—No, they do not commit the bank in any way.

9545. For the information of those of us who are not so familiar with these matters, would you tell us in general what is the nature of the business transacted by the bank at present at its chief offices and branches?—I would like to classify our business under three main heads. We do a general banking business; we are the Government bankers; and we are tho bankers' bank.

9546. What would be the chief activities of the bank as regards its general banking business?—We collect deposits in the form of current accounts, fixed deposits and savings bank deposits. We grant advances in the form of loans, cash credits and overdrafts and discounts and we make transfers on behalf of our constituents.

9547. Is there any minimum limit on the amount of your current accounts?—No, we have no fixed limit on the amount of our current accounts. We have a fixed limit on our fixed deposits—Rs. 500, and in the savings bank our minimum is Rs. 5.

9548. As regards this general banking business, are you subject to any restrictions by Statute or otherwise?—We are subject to restrictions* under the Imperial Bank of India Act. The main restrictions are that we are prohibited from granting advances for a longer period than six months; we are prohibited from dealing in foreign exchanges; we are prohibited from granting advances on immoveable property, and we are prohibited from granting unsecured advances in excess of the amount laid down by the bye-laws at present, *i.e.*, 1 lakh. These are the main restrictions.

9549. Could you amplify that a little by telling us which of these constitutes a real practical limitation upon what would be the ordinary current business of an unrestricted bank and to what extent it imposes a real practical limitation of such business?—To begin with, the restriction on exchange business debars us from what is a very profitable business. Outside that the restrictions do not put us to any very great disability.

9550. Except as to this limitation on foreign exchange business, may I put it in this way, that the other restrictions might be imposed upon any other bank without seriously impairing its profit-earning capacity?—I think so, yes.

9551. Is this limitation on foreign business absolute?—We are permitted to make remittances for the *bonâ fide* requirements of our own constituonts for their personal requirements but we do not engage in trading transactions.

9552. Does the amount of business that you are permitted to do there come to any substantial volume of business?—We have made out a statement*; I have not got it before me, but I think it shows that the turnover is 6 millions. I think you have the statement, Sir.

9553. You have had a statement prepared?—Yes.

9554. Perhaps you would be so good as to put that in, Mr. Murray; I have not got it?—We sold 6 millions, against which we bought 4 millions from the exchange banks.

9555. That is all that this statement to which you refer shows, that you sold 6 millions transfers to your private customers and you bought 4 millions of that from the exchange banks?—Yes, Sir.

9556. You have specified among your general banking business the transfer of funds. That is inland transfers?—Inland transfers from one branch to another.

9557. Is that a novel system recently established in India?—No, we have done it for many years.

9558. That is the Presidency Banks?—Yes.

9559. Recently has it had a big extension?—Yes, it has had a big extension because Government has given us a concession of free transfers from one branch at which there is a district treasury to any other branch at which there is a district treasury.

9560. Will you enlighten my own ignorance by telling us whether that is a profitable business, or an onerous business?—There is not very much profit in it from our point of view. It is a concession that is very useful to our constituents.

9561. I think you have not given us yet any analysis of the business which you conduct for the Government?—We keep the Government account at our local head offices and at our branches also. We conduct the treasury work at our branches† and we conduct the Public Debt Office.

* *See* Statement No. 1, printed at end of Mr. Murray's oral evidence.

* *See* Statement No. 4, printed at end of Mr. Murray's oral vidence.

† *See* Statement No. 11, printed at end of Mr. Murray's oral vidence.

9562. Will you amplify a little what the Treasury business is?—We receive all collections from the general public for credit to Government account and we make payments to the public and also we place funds at the disposal of Government whenever they may require them. We treat that account as a whole.

9563. The Government has only one deposit account with the Imperial Bank of India?—The Government has one deposit account.

9564. There are no compartments?—There are no compartments.

9565. That is a result of the formation of the Imperial Bank of India?—It is the result of the formation of the Imperial Bank of India.

9566. Resulting in an economy, no doubt, to Government balances?—Yes, an economy to balances generally.

9567. What is the business comprised in the management of the Public Debt Office?—That includes the calculation and payment of interest on Government promissory notes.*

9568. What are those?—They are the securities issued by Government or by the Public Debt Office on behalf of Government when they issue loans—Government paper.

9569. Rupee paper?—Yes; we undertake the consolidation, sub-division, cancellation and renewal and enfacement of these securities, and we provide the machinery for the flotation of new loans.

9570. I am not acquainted with the course of business in the issue of a rupee loan. Is that loan made by and through the Imperial Bank, as a British Government loan is made by and through the Bank of England?—The loan is issued by Government, and what generally happens, as far as the bank is concerned, is that we take up a big block of it to begin with. It is not sold entirely by us; it is issued at the treasuries as well as through us; but we take up a big block when the flotation of the loan is made, and we sell it over the counter to the public.

9571. If I am applying for a part of a new rupee loan, to whom do I apply; to you?—You could either apply to the treasury or to us.

9572. You say finally that the Imperial Bank is a bankers' bank; would you expand that and tell us what the meaning of that phrase is?—Most of the leading banks in India keep their accounts with us† and we also conduct the clearing houses at places where there are clearing houses.‡

9573. You tell us that most of the leading banks keep an account with you, but apparently not without exception?—There are probably some small banks in the districts which do not. In all the bigger towns, all the banks of any standing do keep accounts with us.

9574. Finally, you say that you manage the clearing house; that is, the actual working of the clearing house is conducted by the officials of the bank?—It is conducted in our offices, where the representatives of the other banks meet under the supervision of an officer of the bank.

9575. And you provide the necessary staff?—We provide the staff.

9576. What is the distribution of the clearing houses? How many are there in India?—There are 11 in India.

9577. We may take it that those are in the principal cities?—Yes, all the principal cities; I have a list of them here.

9578. Are all the clearing houses organised upon the same model?—Yes, they all are.

9579. How does a bank become a member of the clearing house?—By consent of the members already existing.

* See Statement No. 2, printed at end of Mr. Murray's oral evidence.

† See Statement No. 13, printed at end of Mr. Murray's oral evidence.

‡ See Statement No. 10, printed at end of Mr. Murray's oral evidence.

9580. Does the Imperial Bank exercise any authority in deciding who is to be a member of the clearing house?—Not more than any of the other banks.

9581. Such being the nature of the business transacted by the Imperial Bank, will you tell us to what extent and in what particular branches of its business does the bank come into competition with other banking organisations in India?—There are a good many of our branches (I think there are 75) at which we have no competition at all with any other bank.

9582. Because there is no other bank there?—Yes. At the other branches we do come into competition with the other banks in general banking business; including the cities, we come into competition at about 100 of our branches.

9583. And that competition is subject to whatever rules you may have?—Subject to the restrictions which are placed on us under the Act.

9584. As to which you tell us the one that is practically effective is the restriction on foreign exchange business?—Yes, that is the most important of them; of course, there are other restrictions under which we cannot grant advances on more than one name or on the security of shares; that is an important restriction I forgot to mention.

9585. That is the restriction that you cannot grant advances on the security of one name only?—One name only.

9586. Or on the security of shares?—Yes.

9587. Will you explain how this limitation as to not granting advances on the security of one name only becomes a practical restriction in Indian business?—It is quite possible that a customer of good standing might wish to borrow either on his own name or on the security of shares and in such a case we would have to let the business pass us.

9588. Do other banks do much business on this basis?—I should think other banks must do a certain amount of business on shares.

9589. And on a single name?—I could not say.

9590. It is not a marked feature of Indian banking business?—I think not.

9591. There are some figures and statistics that I thought you might perhaps usefully be able to give us; first of all, a statement of the assets and liabilities of the bank outside India?—I have two statements here;* one is the statement of the affairs of the London Office of the Bank; the other is the statement of the affairs of our Colombo office.

9592. By putting these together we can arrive at a general total of the non-Indian assets and liabilities located outside India?—Our assets and liabilities in London, you will see from that statement, practically balance each other.

9593. The statement as to the affairs of the London Office as on the 18th September, 1925, shows a balance between liabilities and assets at 1·77 crores?—No; £173,000; that is equal to Rs. 20,59,000. I have the sterling figures on one side there and the rupee figures on the other.

9594. I see; these are double columns, sterling and then rupees. What is the total of your London assets?—Shall I give it to you in pounds or in rupees?

9595. In both?—About £ one million and ten thousand.

9596. That shows a practical equality between assets and liabilities?—Yes.

9597. What is the total of the assets in Colombo?—In Colombo our liabilities very largely exceed our assets. They are mostly on current account and fixed deposit; they exceed our assets by over two crores.

9598. The assets being how much, just to get the order of the amount?—Our assets are 147 lakhs and the liabilities are 348 lakhs.

9599. The second statistical question is as to the average maturity of domestic bills held by the bank?—The maximum maturity is 90; the average would be about 60 days.

* Nos. 5 and 6, printed at end of Mr. Murray's oral evidence.

9600. Next, the average maturity of overdrafts granted by the bank; is it possible to give any figure?—It is very difficult to give a figure for overdrafts and cash credits because they are all running on demand and liable to be called up at any time.

9601. And the actual period for which they run, I suppose, varies with the nature of the business?—It varies considerably according to the nature of the business.

9602. Is it possible to give any approximate figure for the average duration?—I think it will be quite impossible, Sir.

9603. Next I wanted to ask you for some particulars about the securities held by the Bank, and I am going to ask you to divide them into four heads, (*a*) Government of India, giving the date of maturity; (*b*) Other Governments, giving the date of maturity; (*c*) Provincial or local Governments, and (*d*) Other Securities?—I have a statement here* showing—

	Rs.
Government of India securities ...	1,627 lakhs.
Provincial Governments	82 ,,
Municipalities	49 ,,
Port Trusts	90 ,,
Improvement Trusts	35,000 ,,

Miscellaneous (that is, State-aided and District Board Railways)—Rs. 15,24,000; that makes a total of about Rs. 18,65,00,000.

9604. That shows that the proportion of Government of India securities to the total is approximately as 8 to 9?—Yes.

9605. The next heading of inquiry is the turnover of the sterling exchange dealings of the bank during the last financial year?—Those are the figures which you have been discussing.

9606. Have you a statement giving them in more detail?—No, it does not give it in detail. I will hand you the statement.†

9607. This shows an item of approximately 4½ millions of purchases from the exchange banks; the other item of importance is one million and a-half approximately on cheques, bills, &c.; purchased from your own customers?—Yes.

9608. Now I come to your London office. What is the character and extent of the business which is done by the London office?—We open current accounts and deposit accounts, receive fixed deposits but only from persons who have within the previous three years been customers of the bank in India, or of one of the Presidency banks, and we make advances in the form of overdrafts on current account.

9609. Is there any distinction between the deposit accounts and fixed deposits?—Fixed deposits are accounts which are fixed for given periods. In our case, it is always six or twelve months.

9610. Those are the fixed deposits. And deposit accounts, they are at notice?—Sir Norcot Warren will be able to tell you better.

9611. *Sir Norcot Warren*: We take deposits at seven days' notice.

9612. *Chairman*: Deposit accounts are at seven days' notice?

9613. *Sir Norcot Warren*: Some are at six months.

9614. *Chairman*: I understand that is the distinction between these two, the deposit accounts and the fixed deposits?—Yes.

9615. With regard to the people for whom you accept these accounts in London, must they have been customers in London?—They must have been customers in India before they became customers in London.

9616. Had the Presidency Banks any branch in London?—No, the Presidency banks had no branch in London. Each bank had its own correspondent in London.

* No. 3, printed at end of Mr. Murray's oral evidence.
† No. 4, printed at end of Mr. Murray's oral evidence.

9617. So the persons from whom you accept deposit accounts in London must have been customers of the Imperial Bank or of the Presidency Banks at any office in India or Ceylon?—Yes.

9618. That is the first category. What is the next?—Then loans are granted against securities deposited with the banks in India. Funds are borrowed when necessary from London bankers and bills on India are collected for other banks and cheques and bills are purchased under credit opened by the banks head offices in this country. Drafts and T.T.s on India are sold principally to other banks for small amounts.

9619. How does that relate to this restriction on foreign exchange business?—It is only done to a very moderate extent and is a means of providing funds to meet our own constituents' requirements.

9620. This comes under the exception of business for the *bona fide* requirements of your own customers?—Yes.

9621. Are there any further headings of business?—I don't know that they are of importance. Securities are kept in safe custody only on behalf of our own constituents. The flotation of loans on behalf of public bodies in India is undertaken. Subscriptions are received for rupee loans issued by the Government of India, and subscriptions for Government of India sterling loans are dealt with on receipt of cabled advices from banks' head offices in India.

9622. That is consequential in regard to the business done in these loans in India?—Yes.

9623. You say the flotation of sterling loans?—Not for the Government of India but for public bodies in India. We have nothing to do with the flotation of sterling loans for the Government of India. That is undertaken by the Bank of England.

9624. You say that subscriptions for the Government of India sterling loans are dealt with. What do you mean by "dealt with"?—Well, that is just a matter of procedure. They are remitted from this country, from India, and paid at that end towards the loan.

9625. Subscriptions from India?—Yes.

9626. You tell us that the whole management of the sterling loans of the Government of India is in the hands of the Bank of England?—Yes.

9627. Has any suggestion ever been made that the Imperial Bank should deal with the business now transacted in this regard by the Bank of England?—I have heard it suggested, but I think there are difficulties in that.

9628. There are statutory difficulties?—Yes, statutory difficulties.

9629. Could you refer us to the statutes?—I could not.

9630. No doubt reference can be made to these. Apart from statutory difficulties, the question might arise whether there are any practical difficulties?—I think there are no practical difficulties. I think the trouble is entirely statutory. I could look up that matter and let you have further information.

9631. Further information being directed to the statutes or to the question of practical difficulties?—No, the statutes.

9632. We need not trouble you, I think, Mr. Murray. It is quite easy to identify them. Is there any further business transacted by the London office on behalf of the Government of India?—The London office manages the rupee debt in London, in the same way that they manage the rupee debt out here.

9633. Can holdings of the rupee debt be transferred in London?—They can be transferred from India to London.

9634. And from hand to hand in London?—Yes.

9635. The management includes the payment of interest?—Yes.

9636. What remuneration do you get for that work?—The remuneration for that is £300 per crore

of rupees. We took that over from the Bank of England. Its remuneration was greater than that.

9637. How much greater was the remuneration of the Bank of England?—£200 per crore greater. We also have the account of the High Commissioner for India in London.

9638. You are his bankers?—Yes.

9639. That is on an ordinary commercial footing?—Yes.

9640. Before we continue, I think it might be convenient at this point, Mr. Murray, if we were to complete the picture as regards the relations in the matter of remuneration and services between the Imperial Bank and the Government of India. We have just dealt with the remuneration received under one small heading, that is the management of the rupee debt in England. Could you, for convenience sake, give us a general account of any form of remuneration received by the Imperial Bank from the Government of India on the one side of the book, and, on the other side of the book, the services performed in addition, if any, to those of which you have already told us by the Imperial Bank for the Government of India. Does the Imperial Bank receive any other payments from the Government of India?—The only other payment we receive from the Government of India is payment for the management of the public debt office.

9641. On what basis is that payment?—The remuneration received there is Rs. 2,000 per crore per annum.

9642. What percentage is that?—That is $\frac{1}{50}$th per cent.

9643. There are no other payments by the Government of India?—There are no other payments by the Government of India to the Imperial Bank. The treasury work we conduct without payment. That entails a very considerable amount of work and a very considerable amount of expenditure, both capital and current. As compensation for that we have the Government balances on which we pay no interest.

9644. Are the statistics as to the Government balances held from time to time readily available in any convenient form?—I have a statement.* This statement shows the highest and lowest public deposits during each year since the amalgamation of the three banks. Also the highest and lowest bankers' balances and the highest and lowest bankers' borrowings.

9645. This is a statement in lakhs?—Yes.

9646. It shows that, in 1925, the highest figure for public deposits was 2,896 lakhs and the lowest figure 430 lakhs?—Those are the figures.

9647. You also provide us with a statement† giving the details, into which we have already entered, as to the management of the public debt of India by the Imperial Bank of India?—Yes.

9648. To complete the picture, is there any other matter which we ought to take into account in considering the services rendered by the bank for the Government and the remuneration received? Should we, for instance, take into consideration the opening of branches?—We have done a great service, I think, to the Government and to the country by the opening of our new branches.

9649. Are all those branches remunerative?—It is rather too early to judge these new branches. They are still in their infancy, but a certain number are already remunerative, several others are building up quite a healthy business and only a few show no prospect of ever being able to cover their overhead charges. There are 32 of these new branches working at a profit—56 of them are still working at a loss.‡

9650. But you have hopes that some of these 56 may build up remunerative business?—They have not had time yet to show results. Taking all these new branches together the credit balances of the current accounts amount to 3 crores and 10 lakhs, our savings bank balances are 1 crore 68 lakhs, and our fixed deposits 3 crores 57 lakhs. We have altogether collected over 8 crores of deposits.

9651. Can you give us the figure for advances by those branches?—Our total advances at these new branches are 3 crores and 46 lakhs.

9652. What would be the policy of the Bank in regard to the opening of further branches?—There is no doubt that the policy of the Bank will continue to be progressive, and wherever a demand arises for a new branch with reasonable prospects of business, I am sure the Bank will meet the demand. But the strain thrown on our staff in opening these 100 new branches in the past five years has been very heavy, and I think that for the present it would be wise to concentrate on consolidating the business of these new branches rather than on any rapid expansion. As far as further development goes, my own view is that we should concentrate more on developing business in and around the branches already opened than on looking for new branches. We could do that by means of outstations which would bring banking facilities into villages where there is not sufficient business to cover the overhead charges of a full branch. The main difficulty in that is the matter of training our staff, and I think we would be able to do that gradually.

9653. The outstations, as I understand it, are outstations of branches?—Yes, radiating from branches and managed by those branches.

9654. To be quite sure we have not omitted any consideration in this matter of the relations between the Government and the Bank, is there any other matter which suggests itself to you to be taken into account in considering the bargain, as it were, between the two?—In addition to these new branches I can think of nothing else.

9655. Let me put to you a supposition. If the Imperial Bank were to take over the paper currency and the control of the reserves, and were to be given the sole right of the note issue, with the obligation of maintaining exchange between certain gold points, would you anticipate any practical difficulty in the Bank providing the funds for meeting the sterling expenditure of Government?—Assuming these circumstances, the Bank's position would be practically the same as the position in which the Government are now and I do not foresee any practical difficulties.

9656. With regard to the seasonal expansion of currency, how have the arrangements recently introduced worked? Are there any suggestions to be made for improving them?—In practice, the arrangements have, I think, worked satisfactorily and have served their purpose. The main difficulty that we have experienced has been in finding a sufficient quantity of domestic bills for the purpose, and this difficulty has been met by the manufacture of bills by transfer from cash credit accounts. Objections have been raised to this procedure on the ground that these bills are not considered to be self-liquidating.

9657. Do you consider that a substantial objection?—I do not. I consider that the business which is behind these advances is the business which does create the true seasonal demand and that the advances do gradually liquidate themselves. Take, for instance, jute. The advances are granted in the early part of the year and gradually run off as the stocks are manufactured towards July when they are completely liquidated.

9658. I understand the position is that the business which might, in other systems of procedure, bring the bills into existence is there, but owing to the business methods in India the bills are not brought into being?—The present system of advancing business by cash credits is a very old custom and it is one which has worked very satisfactorily both from the point of view of the bank and the borrower.

* No. 7, printed at end of Mr. Murray's oral evidence.
† No. 2, printed at end of Mr. Murray's oral evidence.
‡ *See* Statement No. 15, printed at end of Mr. Murray's oral evidence.

9659. What would you propose to meet the situation, that the nature of the security upon which the seasonal currency can be brought into being should be changed, or that in some way the creation of bills should be promoted?—The only other way in which I see that you could alter the form of the security would be that if you reduce the Stamp Duty* on these bills to a merely nominal figure, mills might be induced to take a portion of their advances in the form of currency bills which would run off at an earlier date.

9660. That would promote the creation of bills?—That would still be promoting the creation of bills.

9661. Do the restrictions as to dealing with bills with one name affect the matter at all?—That does not affect that particular business. The bills on one name which might become available for that business are the bills we take from the small cultivator and the small dealer in the districts when we grant them advances against grain. These loans are all supported by actual goods and these loans do create a seasonal demand.

9662. Can you take those bills now?—We do not take those bills now. Those are loans as they stand at present and not bills, and they have no fixed date of maturity.

9663. Is it desirable that you should be able to?—I only suggest it as a possible alternative if this other business is objected to, but I see no advantage in it myself over the existing method. Another method possibly of creating a larger supply of trade bills would be a considerable reduction in the Stamp Duty. That might tend to encourage them.

9664. That is the method you have already referred to?—I was referring to it as a method which might encourage trade bills in the bazaar. What I was speaking of just now was really advances on produce.

9665. It is not your opinion that the provisions in this regard should be supplemented by extending the categories of securities against which the seasonal currency can be advanced?—I do not think it is necessary.

9666. As to remittance business, what is your opinion regarding the method of purchasing sterling in India? Has it worked satisfactorily? You are in favour of sale in London of bills on India?—I think it has worked very satisfactorily and I am in favour of its retention.

9667. What are the characteristic advantages of the method?—The advantage that I see in the method —we are talking of the purchase on this side—is that it is on this side that the liability to make the remittance is created, and as it is by India's exports that this home charge has to be met, I think India is the natural place in which to make this purchase.

9668. You are in favour of the purchase of sterling in India by tender? Has that been found to be a workable plan?—It worked very well in London before the War, and I see no reason why it should not work equally well out here, but I think, at the same time, that while, as a matter of practice, the business might be worked by tender, Government should still retain the right to go into the market whenever they thought it advisable.

9669. What would be the circumstances under which the Government, or the bank on behalf of the Government, would find it preferable to make its purchases privately?—In recent practice, on a rising exchange the Government have found it a very useful method of making their purchases.

9670. What would be the advantage obtained or the evil avoided by making the purchases in the market rather than by tender?—It leaves things more in the hands of the purchaser.

9671. Is it a question of it being desirable under some circumstances that the intentions and proceedings of the purchaser should not be too well known?—That is my idea.

9672. The point has been pressed upon us that publication of the amount purchased should be made as soon as the purchase is made. Is there any objection to that course? If so, how often should the publication be made?—Under the tender system publication was automatically made once a week; and I think under a system of purchase the same information should be given periodically.

9673. That is, it should be given weekly?—Weekly.

9674. That would not sacrifice this advantage of avoiding too great a publicity?—I think it would be a fair arrangement as between the taxpayer on the one hand and the market on the other.

9675. Now as regards reserves, can you assist us by telling us what precise advantages would, in your opinion, result, in the first place, from the administration of the banking and currency reserves of the country being under one control, and, secondly, another aspect, the amalgamation of the currency and gold standard reserves in the hands of the bank? First of all, the administration of the banking and currency reserves of the country being under one control?—The advantage that I see from placing the administration of the currency and the control of credit under one authority is that under two authorities working on different policies, the policies might clash and therefore stultify each other.

9676. It is a question of greater co-ordination of control?—Yes, unification.

9677. As regards the amalgamation of the currency and the gold standard reserves, what are the considerations there?—So far as it might be necessary to strengthen the currency reserve under any new standard which may be adopted, I can see an advantage in transferring such portion of the gold standard as may be necessary.

9678. That is only a transfer of some of the assets of the gold standard reserve to the currency reserve and maintaining a separate reserve?—Yes.

9679. Apart from the possibility of any such transfer, what is your opinion about the advantages of the unification of these two reserves?—The unification of the two reserves would mean automatic contraction of currency when the currency reserve has to be drawn on. But I think it is quite possible that circumstances might arise in which it would be injudicious to contract currency at the time when it was necessary to draw in support of exchange and in such a case I think the portion of the gold standard if held separately would be convenient.

9680. Is it not indeed rather a feature of any sound system that contraction of currency against diminution of reserves shall be automatic?—Yes; I quite see that.

9681. You fear that the contraction might, under such conditions, be too severe?—Yes.

9682. Could not that be dealt with by a familiar provision giving permission for an emergency extension?—It could be.

9683. And that is the manner in which, in fact, in other systems this situation is dealt with?—Yes.

9684. If we preserve an independent gold standard reserve, which would not so act as to automatically reduce currency in times of bad exchange, would that introduce an element of management into the system?—It would introduce an element of management, yes.

9685. Public opinion in India is likely to be very suspicious in regard to management?—Yes.

9686. Now on a wider question, do you desire to express any view about the policy of India having a gold currency in active circulation either (*a*) as a feature of an exchange standard or (*b*) on a full gold standard, and fully convertible internal currency?—Under a gold exchange standard I see no advisability in putting gold into circulation. In fact, I think it would be inadvisable to put gold into circulation unless there is a reasonable certainty of your being able to continue the supply; because if you put the gold coin into circulation you create a belief that the other forms of currency are readily interchangeable into gold coin and if you fail to supply the gold coin, you destroy that belief, and I think it is better not to create this belief than to create and then destroy it.

* *See* Statement No. 16, printed at end of Mr. Murray's oral evidence.

9687. But under the conditions, assuming a gold exchange standard, there would be no undertaking to convert either notes or rupees; the gold currency would simply be obtained by the minting of gold held by private holders?—Yes.

9688. Have you any opinion to express as to the desirability or the reverse of having such an additional gold coinage under an exchange standard?—No, I do not see any desirability.

9689. Would it, in your opinion, serve any useful purpose?—I think under a full gold standard. . .

9690. No; I was thinking for the moment of an exchange standard?—I do not see any advantage in it at all if there is any risk of its being withdrawn.

9691. Have you any opinion to express as to the desirability of a gold currency on a full gold standard, that is convertible notes and rupees?—I think under a full gold standard with rupee merely as a token coin, it would be very advisable to have a gold coin in circulation. I think the country would want it and I think it would have this advantage that if people realised that they could at any time change their notes into gold coin, it would decrease the tendency to hold gold coin in reserve and would free the reserves for investment in Government securities, Post Office cash certificates and similar investments.

9692. I will ask you further about that, if I may, in a moment. At present, just to continue our present line of thought, what is your opinion as to the extent to which a gold currency would be actively used in circulation? Would it displace notes or rupees to any material extent, and, if so, which?—I think, to begin with, it will go into circulation a good deal. I myself have had no experience of a gold coin in circulation except when I was working in a branch office some 20 years ago, when we began to put out gold into circulation. The gold disappeared to begin with and nothing came back to us but rupees. There were no notes then. After a few years it freely circulated in the bazaar. That leads me to think that if the gold coin goes into circulation it will go out very rapidly at first; but as soon as people begin to realise that they can always get gold coin in exchange for notes, they will find notes more convenient to handle, and notes will take the place of gold in circulation.

9693. Where was that branch?—That was on the west coast, Cochin.

9694. At first you think that, when gold was going out into circulation, it would be displacing notes or rupees?—At that time there were no notes; it was only displacement of rupees.

9695. You have not had any experience as to what the exact results will be upon the relative demand for gold, notes and rupees?—No, I have not any experience.

9696. Assuming a gold currency and a gold coin in circulation, what ought the coin to be? Ought it to be a sovereign or an Indian gold coin?—That must depend largely on the rate adopted. If the rate adopted is one which is divisible into an equal number of rupees, I don't think it is very material whether you have the sovereign or the separate gold coin. Sentiment will probably prefer a separate coin. But if the rate adopted is one which could make it divisible into an equal number of rupees, I think it will be certainly desirable to have a separate coin.

9697. Apart from that very material consideration, and supposing the rate was decided, are there any specific advantages in one rather than the other for the convenience of trade?—I do not think so.

9698. There is no point in having the sovereign because it is familiar in international trade?—I do not think so. Whatever coin it is, I do not think it will remain to any large extent in circulation.

9699. What are your views about the issue of small notes, notes for less than Rs. 5?—I very much regretted the dicontinuance of the small note; because I think it had a great value in educating the people to the use of the paper currency. At first there was a prejudice against it, but that prejudice disappeared as it became more familiar and I think if it is going to be reintroduced it should be introduced as early as possible before the effect of its previous issue has been forgotten. But, on the other hand, if any new standard which may be contemplated would entail an obligation or a liability for redemption of rupees at their currency value, I think it would be a mistake at present to increase that liability by issuing notes which will take the place of rupees and so increase the number that would be available.

9700. I understand that would drive more rupees back for conversion?—Yes.

9701. It has been suggested that if small notes, one rupee notes, be re-issued, they should be made limited legal tender—legal tender only for a certain small amount. Have you any opinion about that?—I would not limit its legal tender as long as the rupee remained full legal tender. I would make no difference between the rupee and the one rupee note.

9702. You would not give any colour for the opinion that there was any difference in status between them?—I think it would be a mistake to do that.

9703. Now as regards this question of limiting the legal tender of the rupee, I think there has been put into your hands a memorandum, has there not, in which a scheme is outlined for introducing a full gold standard, with gold currency available, and subsequent limitation of the legal tender of the rupee after an opportunity has been given for its conversion into gold?—Yes, I have seen that.

9704. What is your opinion as to the present system? Do you see any serious disadvantage in the present system, under which the rupee is unlimited legal tender, and are those disadvantages of sufficient importance to justify the scheme to which I have just referred?—The disadvantage I see in the present system is the danger that what happened before might happen again when the silver value of the rupee might rise over the currency value, and then your rupees would disappear.

9705. I understand you would have a full gold standard?—If you have a full gold standard that disadvantage would disappear.

9706. Because, after you had limited the legal tender of the rupee, you could substitute some other form of small change?—Yes.

9707. You have referred to the desirability of a gold currency under a full gold standard. Have you ever been interested to make any of the estimates which are necessary in considering the practicability of the introduction of a full gold standard involving the acceptance of the obligation to convert rupees into gold for a period preparatory to limiting the legal tender of the rupee? The principal estimates have been two in number: (a) the amount of gold which would be required in order to carry out that policy, and (b) the cost of the policy?—No, I have never attempted to work that out, Sir.

9708. Do you desire to make any suggestions, supposing that there were to be a transfer of the management of the paper currency to the Imperial Bank, as to the detailed arrangements for that transfer?—No, I have no suggestions to make at present except that in the event of a transfer I think the transfer would also have to be made of the expert and experienced staff of the Currency department.

9709. Would that present any practical difficulties?—I do not think so.

9710. The Currency department could then operate with equal facility as a department of the Bank?—As a department of the Bank, yes; I do not think there is any practical difficulty.

9711. What do you consider to be the outlook as regards co-ordination between the Government of India and the Imperial Bank. Supposing that the Imperial Bank becomes responsible for the note

issue, the control of the reserves and the remittance business, would there be any difficulty in geographical position, separation between Delhi and Calcutta and so forth, in maintaining the necessary co-ordination and consultation between the two?—I do not think there will be any difficulty as long as the Controller of Currency is, as at present, in close touch with the Bank authorities.

9712. I understand that you picture the situation would be very much the same as it is at present as regards communications?—I think so, Yes.

9713. Carried on through the same channels?—Yes.

9714. Have there been any complaints from the Indian joint stock banks about the competition of the Imperial Bank, and, if there have, in your opinion are such complaints justified? What policy would you propose to avoid any legitimate complaints of the sort supposing the note issue were to be transferred?—Since the Imperial Bank came into existence we have only received one complaint from an Indian joint stock bank and that came to us through the Government of India. Their main grievances were that we opened up at places where they had already broken ground and opened up branches, that we were in a better position than they were to secure business because of the facilities of free money which we enjoyed from the Government of India and because of the facilities for transfer of money from one branch where there is a treasury to another branch where there is a treasury. I have a certain amount of sympathy with that particular bank because they did useful pioneer work, and for some time they enjoyed a monopoly of business at the branches which they had opened, and they naturally did not welcome us when we went there; but our going there was part of a larger policy, the policy of opening a hundred new branches, and those branches which we did open were with one exception treasury branches, and it was important for our policy to take over the treasury work from Government in these places. It is quite true that we are competing with them there, but, at the same time, we are competing on very fair terms, and if we can give facilities to the public which they cannot give to the public, I think it so much the better for the public.

9715. Have you been able to meet the contention as regards the greater facilities for transfer enjoyed by the Imperial Bank?—We have now made an arrangement* under which we supply banks at places where we are working and at which they are working with the transfer of funds at $\frac{1}{32}$ per cent. between places at which there are district treasuries.

9716. What about the banks' contention that you are getting the Government balances free and so getting a pull?—That is a very misleading contention, because they do not take into account the fact that we are doing a very great deal of work for Government, and though we pay no interest on those balances, we are paying very heavy charges in the conduct of the treasury work and doing a very great deal of work.

9717. In general you would contend that, although the competition may not be liked by another bank, it is a good thing for the public?—It is a good thing for the public, I think.

9718. We have gone into the existing state of the account as between the Bank and the Government and the relative advantages and considerations, and we are considering again the possibility of a transfer of the note issue. Have you any opinion as to what the terms of such a transfer should be in view of any additional advantage which would be given to the Imperial Bank?—I think it is very difficult at this stage to make any suggestion in regard to the terms because one does not know exactly what scheme will be adopted or under what conditions the currency will be handed over to the Bank; but a simple solution would be to guarantee the shareholders of the Bank a fair return on their money, that is, a return equivalent to what they are getting, or not less than they are getting now, and let the Government take the whole of the rest of the profits.

9719. I understand that you lay great emphasis on the simplicity of any arrangement between the two?—Yes.

9720. What effect would such an arrangement have upon the general policy of the Bank as regards profit-earning?—Well, an arrangement of that sort would free the Bank from entire dependence on its profits on its banking side for payments of its dividends, and to some extent would remove the necessity for considering the question of profits in any development of new branches of business throughout India which it might undertake.

9721. It might be said that the limitation of the shareholders' dividends would encourage public confidence that the business of the Bank was being conducted in the general interest of the country?—Yes, that is what I mean.

9722. Various alternatives have been suggested in the course of the evidence, Mr. Murray, and perhaps I may put them to you in order to ascertain what your view is upon them. Another alternative suggested is that part of the consideration to Government for the transfer of the profitable business of the note issue might take the form of a participation in the shareholding of the Bank?—For political reasons I think it would be a pity to bring the State into it as a part owner if it can be avoided.

9723. Another suggestion, differing slightly from your original suggestion, is that, without any limitation of the shareholders' dividends, the Government might take a share in the profits of the bank?—A fixed share?

9724. Yes, a proportionate share. That would, at any rate, not involve the specific disadvantage to which you refer of making the bank free?—Quite.

9725. Then it has been suggested that there should be a separate profit and loss account of the note issue department of the Bank and that the Government might take annually all, or nearly all, the profits shown therein. What is your view upon that?—I have not gone into the relative merits of the different methods, but the one which I have suggested is the one which appeals to me most.

9726. With regard to the last suggestion to which I have referred, that a separate profit and loss account should be kept of the note issue department, would that involve a Government scrutiny of the actual account of the note issue department in a very close manner and a certain amount of Government control over the expenses of that department?—It would necessitate very strict Government supervision.

9727. It would lead to something of the nature almost of divided control of the manner in which the note issue department conducted its business?—It probably would, yes.

9728. The final suggestion made is that the bank might pay the Government a percentage on the amount of the invested portion of the currency reserve over and above a fixed figure which would be free, and excluding any amount on which 6 per cent. would be paid in accordance with the suggestions made as to seasonal expansion or emergency expansion of the currency. Have you considered this suggestion?—It is quite feasible.

9729. Have you any opinion to express as to its relative desirability in comparison with the simpler method which you have suggested?—I would prefer the simpler method to any of these alternatives which have been suggested.

9730. Finally, there is one matter which, though remote, is not irrelevant to the subject under reference, and that is to ask you whether you have any suggestions to make in regard to the means of spreading the habit of investment and the use of banking

* *See* Statement No. 19. printed at end of Mr. Murray's oral evidence.

facilities in India?—I have already suggested how I think the Imperial Bank should spread its banking facilities; and the Imperial Bank are also at present interesting themselves in taking active steps towards the formation of an All-India Bankers' Institute which will provide banking education, and I think that the spread of banking education and the spread of banking facilities is likely to do more than anything else to encourage the spread of the investing habit. In addition to that we have at present instructed all our branches throughout India to purchase and sell Government securities on behalf of the general public in addition to our own constitutents at a fixed charge, and I think that may help to facilitate the investment habit.

9731. Are there any other statements or returns which you have been able to prepare for the information of the Commission to which you have not referred in the course of these questions?—I do not think there is any other statement of any importance.*

9732. (*Chairman.*) Perhaps you would be so good now as to deal with any supplementary questions which my colleagues may ask you.

9733. (*Sir Reginald Mant.*) The Chairman asked you just now how Government would maintain touch with the bank if the note issue were transferred to the bank, and you said that you supposed it would do so through the Controller of Currency, but I understood you to say that the bank would take over the currency department with its personnel?—There would still, would there not, have to be some officer of the Finance Department who would take over a good many of the duties of the Controller.

9734. You mean that Government would still maintain an officer?—Yes; I may be wrong in using the word Controller: I meant some officer of the Finance Department.

9735. At Calcutta?—At Calcutta, or wherever we happen to be.

9736. Government would have to keep some officer at the headquarters of the bank?—Government would have to keep some officer in touch with our headquarters.

9737. Just one other question: Have you thought out a system of tender for purchase of sterling in India?—I have not worked it out, but I do not think it should necessarily present any insuperable difficulty.

9738. The tenders would have to be collated at one centre?—They would have to be collated somewhere.

9739. And you would do that by telegram?—Yes.

9740. The Bombay Chamber of Commerce expressed a strong opinion in favour of remittances being effected by public tender; they say that this method is more equitable and promotes a greater feeling of confidence in the minds of the public. I understood you to say that you would still maintain the present system of purchase as supplementary to the tender system?—In normal practice I think the system of tender would be more equitable.

9741. Could you not get over the objection raised in Bombay by some arrangement such as is occasionally adopted in London of selling intermediate council bills at a fixed rate between weekly sales? Could you not do that in India?—You could still do that, yes.

9742. If you adopted a system of that kind, you would avoid all criticism on the ground of secrecy?—Yes.

9743. And you think that that would be a possible system?—Yes. I think it would.

9744. (*Mr. Preston.*) With regard to these statements you put in of the bank's sterling sales for 12 months, you make the total amount to be six millions. These sales represent absolute sales to your own constituents?—Yes.

9745. In every sense within the Act?—Within the Act.

9746. With regard to the statement you make of your assets in London, I did not catch exactly what you explained to the Chairman as to the nature of those loans?—All those loans are loans granted on securities which are held in India, to our own constituents.

9747. Loans given in London against securities here?—Yes.

9748. Does that come within the Act?—There is nothing in the Act against that, as long as the borrowers are constituents of the bank.

9749. Going back again to that sterling position, it would look as though you were uncovered in exchange on this balance, is that so?—That is so, yes.

9750. (*Sir Purshotamdas Thakurdas.*) A few witnesses have mentioned to the Commission a general suspicion lurking in the minds of the Indian public that the Imperial Bank do not give full facilities to the Indian Commercial and industrial community on a par with the European commercial community. Can you put before the Commission any figures or facts to challenge this allegation *primâ facie*?—We recently took out some figures showing the amount of our industrial advances to Indians and to Europeans. I have a copy of that statement* here. This concerns only industrial advances and it shows that our industrial advances to Indians totalled Rs. 13,14,00,000 while our advances to Europeans totalled Rs. 7,70,00,000. With regard to deposits and general loan facilities if the Commission would like to call for a statement showing our deposits under the head of Indians and Europeans and our advances under the head of Indians and Europeans I have no doubt the bank would be glad to submit it, and I am sure the statement will show that we receive more deposits from Europeans than from Indians and we lend more to Indians than to Europeans.

9751. I must say that those who made this allegation have not, for reasons which they have not been able to explain to us very fully, been able to give us facts in support of their allegation; and I felt that if you could put forward any figures *primâ facie* which would show there could not be much in it on the whole, it might help us?—I am sure the bank will be very glad to produce figures to show exactly the extent of our advances to Indians and to Europeans.

9752. (*Sir Purshotamdas Thakurdas.*) May I then take it that you would then send the Secretary a statement of the commercial advances on similar lines?

9753. (*Chairman.*) Let us first understand that it can be provided. Perhaps we may mention the matter afterwards amongst ourselves, as long as Mr. Murray knows just what he has to send. Would you repeat it, Mr. Murray?—It would be a statement in which we would show the total amount of our deposits divided under the head of European and Indian, and the total amount of our advances in the same way; because it is quite untrue to say that we discriminate in any way unfairly between Europeans and Indians; in our own interests we have to consider every proposition which is put before us on its own merits as a proposition.†

9754. (*Sir Purshotamdas Thakurdas.*) Regarding the reply that you gave to the Chairman in connection with the terms of the division of profits if you take over the currency department, I understood you to say that you would suggest government guaranteeing the present dividend and the Government taking the balance of the profits?—Yes; that is really a personal suggestion thrown out by myself.

9755. Your whole evidence being personal as you have said already, I take it that this is your personal opinion also. I just wanted to follow that up in order to understand it a little more clearly; you recommended that suggestion of yours strongly in preference to other suggestions, owing to its sim-

* Certain further statements were subsequently put in by Mr. Murray, and are printed below, together with those which are referred to in his oral evidence.

* No. 8, printed at end of Mr. Murray's oral evidence.

† *See* Appendix No. 48

plicity. It strikes me that unless you also have in mind substantial alteration in the constitution of the Board, both central and local, controlling the bank's interests, there would hardly be any incentive to representatives of shareholders for progress in the direction of additional prosperity to the bank? —What I had in mind was to ensure prosperity to the shareholder by guaranteeing his dividend and to suggest what I thought would make for the greatest prosperity of the country.

9756. You mean to ensure to the tax-payer that he would get the benefit of any facilities which may be enjoyed by the Imperial Bank?—What I really felt was that under this arrangement any development of banking in the country would be at the expense of the tax-payer and not at the expense of the shareholder of the Imperial Bank.

9757. But would you not recommend a change in the control then?—I think in the event of the currency and the responsibility for the maintenance of exchange being handed over to the bank that there probably would be some change in control.

9758. In fact, the shareholders' representatives should be, if not in minority, at least half the total? —I would not like to make any suggestion in regard to that.

9759. Because I really feel that unless you give the person or the interest which is going to have the surplus of the profits after a guaranteed dividend, substantial representation and control?—There would have to be, I do not say control, but there would have to be very substantial supervision.

9760. Supervision over the controlling body?— Supervision over the general business of the bank and its management.

9761. Even when you take over the currency, I take it that the Imperial Bank would have to do the day-to-day business which it does to-day?—That is what I would like to see. Under any circumstances, whatever happens, I hope the Imperial Bank will continue to work on the lines on which it is working now, because I think that is what is in the best interests of the development of banking in the country.

9762. That being so, the question of management and a live management is very important?—It is very important.

9763. And if the interest of the shareholder is restricted by a fixed dividend?—The interest of the shareholder would still be very important.

9764. Not in the shape of any increase on dividend at all, Mr. Murray?—He would still draw a dividend equivalent to what he is drawing now.

9765. Which would be guaranteed by the Government irrespective of profit or loss?—Quite so. That was the suggestion I threw out.

9766. *Chairman*: I rather gather your view is that what India needs as regards banking is courage in developing a class of business which will not be remunerative, at first at any rate?—Wherever we go, as has been shown by the opening of these new branches, we must be prepared to face loss for some little time to come.

9767. And you propose your recommendations as regards the guaranteed dividend to the shareholders in order to produce such a position that the directors of the bank would have courage in developing business which would not at first be remunerative?— They would have to be prepared at first to do that without prejudice to their shareholders.

9768. As regards the question which was raised in the course of previous questions about the management of Indian sterling loans in London by the Bank of England, my attention has been called in the first place to Section 23 (5) of the Government of India Act, which is as follows:—" There shall be raised in the books of the Bank of England such accounts as may be necessary in respect of stock vested in the Secretary of State in Council; and every such account shall be entitled 'The stock account of the Secretary of State in Council of India.'" That, I understand, is one of the statutes to which you referred which stands in the way of advancement? —Yes.

9769. Secondly, it has been called to my attention that there are certain privileges as regards stamp duties which are attached by statute to sterling loans by the Secretary of State for India which are carried on the books of the Bank of England, and it is said that these privileges are peculiar to the Indian loans. Is that within your sphere of knowledge at all?— No, it is not.

9770. (*Chairman.*) I am told that such privileges are not shared by Colonial and Dominion Government loans.

9771. (*Sir Norcot Warren.*) It is within my knowledge, Sir.

9772. (*Chairman.*) We may take it that that is so, that there are such special privileges in respect of certain stamp duties. It is suggested that it is a matter for consideration whether there is any danger of losing such privileges by any new arrangement. That, no doubt, is a matter which will have to be taken into consideration?—Yes.

9773. Are there any matters in regard to which you desire to supplement any of the questions which have been asked?—No, none at all.

9774. (*Chairman.*) Then the Commission is very much obliged to you, Mr. Murray, for your assistance and your very full answers to our questions to-day.

(*The witness withdrew.*)

STATEMENTS SUBMITTED BY Mr. NORMAN MURRAY.

No. 1.

Imperial Bank of India.

Restrictions on Business under the Imperial Bank of India Act.

The Bank is *specifically* prohibited from:—

1. Making any loan or advance—
   (*a*) For a longer period than six months.
   (*b*) Upon the security of stock or shares of the Bank.
   (*c*) On the original security of immovable property.

2. Discounting bills for or lending or advancing in any way to any individual or partnership firm an amount exceeding at any one time Rs. 20 lakhs except on the security of trustee stocks, funds and securities, securities issued by certain State-aided railways, the debentures and other securities issued by District Boards under the authority of the Legislature, and goods or documents of title thereto.

3. Discounting or advancing on bills, etc., of any individual or partnership firm payable at the town or place where they are presented for discount which do not carry on them the several responsibilities of at least two persons or firms unconnected with each other in general partnership.

4. Granting unsecured overdrafts in excess of Rs. 1 lakh.

5. Opening accounts in the London Office for persons other than its Indian constituents.

The Bank is *generally* prohibited from transacting any business not specified in the Act; this prevents it from sharing in the finance of the *external* trade of the country.

Similar restrictions, with the exception of that on the business of London Office, were placed on the business of the late Presidency Banks by the Presidency Banks' Act, 1876.

No. 2.

MANAGEMENT OF THE PUBLIC DEBT OF INDIA BY THE IMPERIAL BANK OF INDIA.

Under the Banks' Agreement with Government the entire management of the registered Public Debt and Securities for the time being of the Government of India and the Secretary of State is undertaken by the Bank. This includes:—

1. The calculation and payment of interest.
2. The consolidation, division, cancellation, renewal and enfacement of Government Securities.
3. The flotation of new Loans.

The Bank's remuneration for the work is as follows:—

Rs. 2,000 per crore per annum. The total amount received in 1924 was Rs. 6,33,100.

The Bank's London Office manages the Government of India Rupee Debt inscribed or enfaced for payment of interest in England.

The Bank's remuneration is as follows:—

£.300 per crore per annum with a minimum of £.5000 per annum but if the balance falls below 8 crores in any one year the commission to be reduced to £.4000 per annum.

No. 3.

Statement of Government and Other Authorised Securities held by the Imperial Bank of India as on 11th December, 1925.

Securities.	Amount (Face Value). Rs.	Total (Face Value). Rs.
GOVERNMENT OF INDIA.		
Maturing within five years	2,16,70,200	
,, within ten years	7,22,72,200	
,, at longer date ...	6,88,27,400	
		16,27,69,800
PROVINCIAL GOVERNMENTS.		
Maturing within ten years	57,48,700	
,, at longer date ...	25,06,300	
		82,55,000
MUNICIPALITIES.		
Maturing within five years	7,80,000	
,, within ten years	15,13,000	
,, at longer date ...	26,84,800	
		49,77,800
PORT TRUSTS.		
Maturing within five years	69,900	
,, within ten years	11,12,000	
,, at longer date ...	78,25,600	
		90,07,500
IMPROVEMENT TRUSTS.		
Maturing at longer date ...	35,500	
		35,500
MISCELLANEOUS.		
Maturing at longer date ...	15,24,600	
		15,24,600
		18,65,70,200

Total Book Value of Government and Other Authorised Securities as on 11th December, 1925 ... ... Rs. 16,67,00,000

No. 4.

IMPERIAL BANK OF INDIA.

	£
The Bank's *Sales* of Sterling for the 12 months December, 1924, to November, 1925, amounted to ...	6,097,851
Covered by—	
(1) Sterling purchased from the Exchange Banks	4,469,545
(2) Cheques, bills, &c., purchased from constituents, &c.	1,402,144
(3) Balances in London	226,162
	£6,097,851

No. 5.

IMPERIAL BANK OF INDIA.

Statement of the Affairs of London Office as on 18th September, 1925.

LIABILITIES.

	£	Rs.
Public Deposits	139,200	20,88,000
Other Deposits	1,008,800	1,51,32,000
Sundries	15,500	2,32,500
	1,163,500	1,74,52,500
Central Office and Local Head Offices Cr.	17,300	2,59,500
	1,180,800	1,77,12,000

ASSETS.

	£	Rs.
Loans	1,023,500	1,53,52,500
Cash Credits	60,700	9,10,500
Inland Bills	18,700	2,80,500
Dead Stock	4,700	70,500
Sundries	4,900	73,500
Balance with other Banks ...	65,000	9,75,000
Cash	3,300	49,500
	1,180,800	1,77,12,000

No. 6.

IMPERIAL BANK OF INDIA.

Statement of Affairs of Colombo as on 18th September, 1925.

LIABILITIES.

	Rs.
Current Accounts	1,80,03,000
Fixed Deposits	1,58,84,000
Bankers' Balances	46,63,000
Sundries	2,34,000
	3,87,84,000

ASSETS.

	Rs.
Loans	19,34,000
Cash Credits	56,07,000
Inland Bills	18,50,000
Dead Stock	23,03,000
Sundries	56,000
Balance with other Banks	1,16,000
Cash	28,78,000
	1,47,44,000
Imperial Bank General Accounts	2,40,36,000
,, Madras Circle London Accounts	4,000
	3,87,84,000

No. 7.

IMPERIAL BANK OF INDIA. In lakhs.

	Public Deposits.		Bankers' Balances.		Bankers' Borrowings.	
	Highest.	Lowest.	Highest.	Lowest.	Highest.	Lowest.
1921	24,17	401	37,51	17,51	286	12
1922	33,19	571	24,53	664	439	43
1923	29,74	623	23,31	465	618	26
1924	31,93	787	15,07	193	10,18	85
1925	28,96	430	13,37	192	588	54

	Savings Bank.	Fixed Deposits.
at date of Amalgamation...	412	18,27
on 11th December, 1925 ...	12,28	26,56

Deposits at New Branches on 29th May, 1925.

Current Accounts	310
Savings Bank	168
Fixed Deposits	337

No. 8.

Advances to Purely Industrial Concerns.

——	Indian.	European.	Total.
Bengal	3·74 lacs	5·74 lacs	9·48 lacs
Bombay	8·50 „	·65 „	9·15 „
Madras	·90 „	1·31 „	2·21 „
	13·14 lacs	7·70 lacs	20·84 lacs

Indian = 63 per cent. of Total . . . .

7th February 1925.

No. 9.

Number of places in India where there are District Treasuries 308

Number of places where there are Branches of the Imperial Bank of India and also District Treasuries 108

Number of places where there are District Treasuries but no Branch of the Imperial Bank of India 200

No. 10.

BANKERS CLEARING HOUSES IN INDIA, BURMA AND CEYLON.

Clearing Houses are at present established at the following towns:—

Ahmedabad.	Colombo.	Madras.
Bombay.	Delhi.	Rangoon.
Calcutta.	Karachi.	Simla.
Cawnpore.	Lahore.	

No. 11.

GOVERNMENT TREASURY BUSINESS PERFORMED BY THE IMPERIAL BANK OF INDIA.

1. The Bank act as Bankers for Government, and pay, receive, collect and remit money on behalf of Government.

2. The Treasury funds and balances at each Office of the Bank is made available for transfer to any other Office, *i.e.*, Government can make practically unlimited deposits and draw practically to an unlimited extent at any Office of the Bank.

3. Government maintains a Currency Chest, *i.e.*, a Branch of the Currency Department, at practically every Branch and the Bank affords the public every facility for changing notes into coin and *vice versa*.

No. 12.

IMPERIAL BANK OF INDIA.

General Rules of Business.

Rs.

Fixed Deposits:—

Minimum amount accepted on Fixed Deposit is 500

Savings Bank:—

Minimum sum accepted when account is first opened 5

Minimum sum accepted as further deposit 1

Maximum sum which may be deposited between 1st January to 31st December ... 5,000

Maximum sum which may be maintained at interest in Savings Bank Account... ... 10,000

Savings Bank Deposit Account:—

Transfers can only be made to Savings Bank Deposit Account when Savings Bank Account balance reaches 10,000

Minimum sum transferable on the above condition is... 2,000

Maximum balance accepted in Savings Bank Deposit Account 50,000

The whole or any part of the balance may be withdrawn on three calendar months' notice.

No. 13.

In the following months Bankers' borrowing from us exceeded their balances with us.

(In Crores.)

Month.	Balances.	Borrowings.
February 1924	$4\frac{1}{4}$—$7\frac{1}{4}$	8—$9\frac{1}{2}$
March „	$3\frac{1}{4}$—6	$9\frac{1}{4}$—$9\frac{3}{4}$
April „	4—$6\frac{3}{4}$	$7\frac{3}{4}$—$9\frac{1}{2}$
May „	$4\frac{1}{4}$—6	$6\frac{3}{4}$—8
June „	$4\frac{1}{4}$—7	$4\frac{1}{4}$—$7\frac{1}{4}$
July „	$4\frac{3}{4}$—$7\frac{1}{4}$	3—$5\frac{1}{4}$
February 1925	$4\frac{1}{2}$—$7\frac{3}{4}$	$3\frac{1}{2}$—5
March „	$5\frac{1}{2}$—8	$4\frac{3}{4}$ 6
April „	$4\frac{3}{4}$—7	$4\frac{3}{4}$—$5\frac{1}{4}$
May „	4—$5\frac{3}{4}$	$3\frac{1}{2}$—$5\frac{1}{4}$

No. 14.

IMPERIAL BANK OF INDIA.

Bank rate.

——	Average Bank Rate for year.	Highest Rate.	Lowest Rate.
1921	5·533	7	5
1922	5·810	8	4
1923	5·947	8	4
1924	6·674	9	4
1925	5·635	7	4

No. 15.

NEW BRANCHES.

Number of New Branches working at a *profit* (inclusive of interest received from or paid to Head Office Account) 32

Number of New Branches working at a *loss* (inclusive of interest received from or paid to Head Office Account) 56

Number of New Branches opened at places where the Allahabad Bank was already opened ... 12

Of these 12 Branches 11 are Treasury Branches.
1 is a Sub-Treasury Branch.

Of these 12 Branches 4 Branches were opened after the Alliance Bank of Simla failed.

No. 16.

STAMP DUTY ON HUNDIS.

Fixed by Stamp Act, 1899—
per Rs. 10,000 ... ... Rs. 6
Increased in March, 1910—
per Rs. 10,000 ... ... Rs. 9

No. 17.

IMPERIAL BANK OF INDIA.

Number of Indians in charge of Branches, Sub-Agencies, Pay Offices or Outstations.

As at 1st December, 1925—

Bengal	38
Bombay	20
Madras	12
	70

No. 18.

IMPERIAL BANK OF INDIA.

Trade Advances.

	Highest.			Lowest.		
	Amount in lacs.	Date.	Bank Rate.	Amount in lacs.	Date.	Bank Rate.
			Per cent.			Per cent.
1921	58·98	Dec. 16	6	42·30	Sept. 2	5
1922	56·27	Mar. 31	8	43·74	Aug. 4	4
1923	67·18	Dec. 28	7*	49·79	Sept. 21	4
1924	86·19	Mar. 14	9	54·67	Dec. 5	6
1925	76·05	April 10	7	45·67	Sept. 4	4

* Raised to 8 per cent. in the following week.

No. 19.

IMPERIAL BANK OF INDIA.

Transfers for other Banks.

Local Head Offices and Branches have been instructed that the normal rate to Banks for transfers between our Local Head Offices and Branches at places at which there is Treasury and at which there are other Banks and also between such Branches will be 1·32 per cent. These instructions do not apply to transfers on Colombo.

Mr. DURAISWAMI AIYAR, called and examined.

9775. (*Chairman.*) Mr. Duraiswami Aiyar, you are acting University Professor of Economics in the University of Madras?—Yes.

9776. Since when have you held that appointment?—It is now about eight months.

9777. And before that?—I was a Reader in the same University.

9778. For many years?—For 4½ years.

9779. And before that?—I was lecturing in a first-grade college on History and Political Economy, and before that for years I was in a first-grade College.

9780. Your experience has been that of a teacher and a professor?—Yes.

9781. You have been good enough to provide us with a full and very closely reasoned memorandum* setting out your opinions upon the subjects of our reference. As I find from your memorandum, Professor, it would appear that your object has been to anticipate every possible question, which leaves very few questions to be asked in this case. I would, if I may, just ask you a few questions to elucidate anything which seems to require further explanation in the course of your memorandum. I understand from paragraph 6, that, after a very full analysis of the position, you come to the conclusion that the time is ripe for some measure for the regulation of Indian currency and the stabilization of the rupee?—Yes.

9782. Indeed, I understand your view to be that the time is over-ripe for that purpose?—Yes.

9783. If I pass over paragraphs of your memorandum it is because I find them so full that they leave really no questions to be asked, and I must not delay you with a repetition of what you have so kindly explained in full in your memorandum. I understand that you are amongst those who place special emphasis upon stability in exchange?—Yes.

9784. And you would not sacrifice stability in exchange for the sake of any attempt at stabilization of internal prices?—Yes, it is a relative question; exchange stability I prefer.

9785. You are no friend to proposals for the management of a currency with a view to the absolute stabilization of internal prices?—No, as far as possible it is better to avoid it, though there cannot but be some management in any kind of currency.

9786. You tell us that there must be some management in any kind of currency?—Yes.

9787. Perhaps you would expand that a little, by telling us what the management is in a currency based upon gold in the sense of having an internal gold currency and a fully convertible internal token currency. What is the degree of management in such a currency?—In such a currency as you have mentioned, the amount of management is very small. For instance, the bank rate may have to be raised with a view to prevent the flow of gold from such a country whereas under a gold exchange standard or under conditions where you want to secure internal price stability, index numbers have to be watched; there cannot be any certainty about the degree of confidence about the index number; and thus the amount of management comes to be extraordinarily great.

9788. The management attains its maximum in a currency in which an attempt is made to fix the standard by reference to prices as evidenced by an index number?—Yes.

9789. The management attains its minimum in a currency as that to which I have referred based upon a gold currency with fully convertible notes or other tokens?—Quite so.

9790. Nevertheless in such a currency as that there is a degree of management involved?—Yes. There is a slight degree of management.

9791. And that is the management which is involved, first of all in the control of bankers' money by the discount rate, and, secondly, if it can be said to be management, to maintain the ratio between the reserves and the token currency?—Quite so.

9792. I think I find the emphasis of your opinion in favour of a stable exchange contained in the following sentence in paragraph 10: "There is severe competition in international trade, and wholesale traders engaged in the export and import trade of the country work on the basis of a narrow margin of profit on each unit of their turnover. Exchange fluctuations are likely to cut into the narrow margin of profit or bring about undeserved gains. The uncertainty involved destroys a large amount of trade which otherwise will flourish. Speculation is promoted and healthy activity in trade and commerce is checked." Is that, as it were, a summary of your argument in favour of exchange stability?—Yes.

* Appendix No. 45.

9793. Then in paragraph 11, where you turn your attention to the question of the effect of a high or low rupee, you range yourself with those who consider that "it does not matter whether the rupee has a high exchange value or a low one when once industry and trade have adjusted themselves completely to the high or low value."—Yes, Sir, except with reference to the burden of the debt where it matters and long-term obligations.

9794. Long term obligations are the last to adjust themselves?—Yes, and debt burden also; if there is a high rate naturally the debt burden is heavier.

9795. What sort of debt have you in mind now?—The debt on the part of private individuals, say agriculturists and also the debt of the Government of India, the rupee debt.

9796. Long-term debt?—Yes, long-term debt.

9797. That is a contract which cannot be terminated and replaced by a fresh contract?—Yes.

9798. That is a particular case in your generalisation, in which you reserve the circumstance that industry and trade have adjusted themselves, because as long as long-term contracts are outstanding there cannot be a complete adjustment?—I was not referring to that kind of adjustment; I was referring to the short term adjustment; prices of commodities being adjusted, wages being adjusted to prices, prices of raw material being adjusted and things of that kind. I do not include in that adjustment long term obligations.

9799. The time in which the adjustment takes place is only a question of degree, is it not? The longer the term of the contract, the longer the time must be before the adjustment can take place?—Yes; it is a continuing burden.

9800. The burden is continued as long as the contract is continued?—Quite so.

9801. Until it can be replaced by a fresh contract on a new basis?—Yes.

9802. So that we may say that, only give it long enough, the effect of any change in the rate of exchange is neutralised by adjustments in prices, rates of wages and other charges?—Quite so; the price has to be paid of course for it in the meantime.

9803. The price in the meantime being some disadvantage to either the debtor interest or the creditor interest, the exporting interest or the importing interest, according to whether the exchange rises or falls?—Yes; or to the wage earner or to the employer.

9804. It is an aspect of the debtor and creditor question?—Quite so.

9805. You follow it by a very close analysis of the effect of a high or low exchange and a rising or falling rupee upon various important categories in the social complex?—Yes.

9806. In the same paragraph, paragraph 11, you say: "As regards the influence of a high or low rupee on national finance, since land revenue in ryotwari areas is fixed for a term of 30 years high rupee means a greater real burden for the ryot." You also deal with the interest on the national rupee debt. Are there any other long term contracts which are worth specification in considering this analysis?—Private contracts, for example the debt of the agriculturist: though you cannot quite say about it that it is a very long term obligation, it is more or less continuously renewed. But still there is some point in this that with a high rupee, suddenly the real burden of the debt of the agriculturist is increased in terms of commodities.

9807. We have been given evidence to the effect that the debt of the agriculturist is in two forms; first of all, in the region of higher finance, in the form of mortgages which may be for 5, 10 or 15 years. That seems to be the usual period: is that so?—I do not think the period is specific in a large number of cases.

9808. For legal mortgage?—I have not very great experience of such things; but so far as my experience goes, usually they specify a year or two.

9809. A shorter term than that I have referred to?—Yes; but it usually continues for a longer period. If the specified period is one or two years, the borrower is not in a position to repay the loan and it extends to 5, 7 or 8 years.

9810. That is rather a second classification which I was about to refer to, *viz.*, the ordinary borrowings by the small cultivator from the moneylender to which no term is fixed, which are either callable or repayable at any time?—Yes; it is more or less continuously renewed. If you have good crops, the debt is repaid.

9811. That is not in form a long term contract?—Yes.

9812. In substance you say it might amount to such, because the borrower is unable to repay?—Yes.

9813. In paragraph 13 you say that the producer of commodities which are not exported and which have not to compete with imported goods is not affected adversely to the same extent as the producer of commodities that find their markets abroad or that have to compete with imported goods?—Yes.

9814. I understand that your view there is based upon the argument that since there is no competition, *ex hypothesi*, between these goods such as grains, foodstuffs, and imported goods of a more expensive nature, the price of the one does not affect that of the other?—I do not think it does not affect altogether. There is a time lag, of course.

9815. There is a time lag?—Yes; in course of time, the adjustment must take place. After all there is a certain level of relative prices, as between the prices of commodities that are not in competition with commodities produced elsewhere and commodities that are produced in India and that compete with imported goods. In course of time, therefore, there must be adjustment, but during the interval, there is a time lag.

9816. That I understand, but it is very difficult to find any commodity which suffers from no competition at all?—Chillies, for example, ragi, pulses, all these are produced largely for internal consumption. They have not got very large and extended external markets, and consequently their prices are not so much regulated by any prices of imported commodities.

9817. What is ragi?—Ragi is a kind of foodstuff that is largely used by the poorer classes of the population, a very important commodity in so far as consumption is concerned.

9818. Is it a cereal?—Yes, it is a cereal; it is used in the south.

9819. *Sir Alexander Murray*: Is it dhall?—No, it is not dhall. I do not know the Mahratti translation of it.

9820. *Chairman*: The Secretary tells me it resembles rice?—Yes, it resembles rice.

9821. *Sir Purshotamdas Thakurdas*: Coarse rice?—It does not come under the rice category. It resembles rice.

9822. Is it something like bajiri?—Yes.

9823. That is a millet?—Yes; it is used as a foodstuff by the lower classes.

9824. But bajiri is used by us?—But in our parts ragi is used by the poorer classes. India is a continent, you know. The upper classes there in Madras do not use ragi.

9825. *Chairman*: We are considering here, in this paragraph, the question of the falling rupee. Generally speaking, supposing one desired to produce a fall in the rupee, the mechanism for it would be some form of increase of the internal currency?—Yes.

9826. That would be an increase in the volume of the internal currency in comparison with the goods and services which that currency is used to buy?—Or it may be a fall in the gold prices elsewhere.

9827. Let me exclude that. Increase in the volume of internal currency?—Yes.

9828. Which is, in its more marked degree, ordinarily called by the somewhat derogatory name of inflation?—Yes.

9829. When you have an increase in the relative amount of internal currency, in the nature of inflation, producing a fall in exchange, if there is anything in the quantity theory of money must not that produce a general rise in all prices, whether they are subject to competition or not?—Yes; there ought to be a general rise. The commodities that enter into international trade naturally will have to be regulated by world prices. Consequently they cannot get away from that inflation. Then the result of inflation will have to be adjusted to the need for price parity between the price of commodities in the country and the price of the same commodities elsewhere.

9830. But they can only be bound to world prices in equity if the gold value of your currency is stable. I am assuming an inflation of the internal currency, which results in a fall in the gold value of your currency. Under those circumstances, on the monetary theory must not there be a general rise of all prices whether they are subject to competition or not?—Quite so.

9831. You say in paragraph 13 that "the imported commodities will fall in rupee prices as a result of a rising rupee, and to the extent that the Indian producer, agricultural and industrial, consumes imported commodities, he gains from the fall in their prices." Of what importance are imported commodities to the poorest classes of the Indian cultivator?—Not much, except that in a very distant way the price of iron and steel, hardware, cotton goods and things of that kind, which they use will be affected favourably.

9832. Hardware and cotton goods?—Yes, hardware and cotton goods; these are the goods that the ryot consumes, and, therefore, he will experience the favourable effect.

9833. Are there any others? Sugar?—Sugar the poorest classes don't consume. There is not exact correspondence between the country sugar which he consumes and the foreign sugar. To my mind there is no exact correspondence.

9834. There is a lag between the jaggery and imported sugar?—Yes; there is lag and consequently sugar, I do not think, will count for much.

9835. Are there any other imported commodities which he consumes?—As I told you, iron, steel and such other commodities as are produced and used for productive purposes have indirect or remote effects on all classes who consume the goods produced as a result of the application of machinery. In that distant way it has an effect. That is all that I can think of.

9836. Continuing your analysis, you point out in this paragraph: "A falling rupee, on the other hand, will favour the producers of commodities the bulk of which is sold abroad, while the producer of pulses and jowar will not find his products rising in price corresponding to the fall in the exchange value of the rupee until after a considerable lapse of time?"—Yes.

9837. Are there any statistics which will give us an idea as to the relative importance of the interests involved in the case of producers of commodities, the bulk of which are sold abroad, and the producers of such commodities as pulses and jowar which are not exported?—The agricultural statistics of India will give us figures relating to the acreage under *ragi*, the pulses, the various millets, &c.

9838. You have not by any chance got those figures out, have you?—No, I haven't got those figures.

9839. We can refer to them in following up your argument on the basis, if your contention is correct, that the producers of exportable commodities will benefit more from a falling rupee than the producers of unexportable commodities?—Yes.

9840. In paragraph 14 you consider the relative importance of land revenue, customs revenue and income tax from the point of view of the interests involved in a rising and falling rupee, and your argument there is summarised, I think, in the following sentence: "Consequently the beneficial or adverse effect of a rising or falling rupee on national finance during recent years when customs revenue and income tax together bring double the amount that land revenue brings is not so great as was the case before the war," your argument being that the land revenue does not adjust itself from the point of view of national finance to the change in the rupee up or down, but that customs revenue and income tax do show adjustments in proportion to the rise or fall in the gold value of the internal medium of currency?—Yes.

9841. So that the importance of customs revenue and income tax having increased in contrast with the importance of the land revenue, the revenue system of the country has become more elastic in adjustment to a rise or fall in the rupee than it used to be. Do I follow your argument correctly?—Quite so, that is what I mean.

9842. Now you proceed to consider the rate at which the rupee should be stabilised, and you commence your argument on the basis that the rupee should be stabilised in relation to gold. Here you point out that one consideration which makes a difference between the absolute appropriateness of a higher or a lower ratio is the question of the value of silver?—Yes, that is one of the considerations.

9843. The higher the gold value of the rupee the less it has to fear from a rise in the silver market?—Yes.

9844. You point out that, whereas commodities in general have increased in price by about 50 per cent. compared to 1913 and 1914, silver which stood at 28d. per ounce in 1914 now stands at no more than 32d., so that it has not risen in proportion to the general rise in the price of commodities; and I understand you think it is more natural to contemplate, in view of that, a rise in the price of silver?—That need not necessarily follow. That depends on the demand for silver and the supply of silver in the world. It all depends to some extent on what India decides. If it is decided not to have the old gold exchange standard, with the rupee mainly circulating in India, if the minting of silver rupees is dropped altogether, the demand for silver is likely to be less than what it was under the previous state of affairs.

9845. And the price of silver would then be likely to be less?—Yes.

9846. If India were not only to go out of the silver market in connection with any new currency system but also to require to sell silver, then it would follow that she would get less for the silver she desired to sell, and that would, as I understand it, be in your opinion an adverse circumstance from that point of view?—Yes.

9847. You point out that "if silver were to stand at a price at the present day on a parity with the price of all commodities it must reach 42d., and at 43d. per ounce the intrinsic value of silver becomes equal to the face value of 1s. 4d." That would leave a very small margin for comfort?—That depends on the supply of silver and the demand for silver. If the same demand were to continue, that is, if India were still to have the minting of silver, in that case there would be trouble.

9848. It might prevent such a rise as might otherwise be foreseeable to bring silver into line with the general rise in other commodities?—Yes.

9849. A little lower down, in continuing your analysis of the position as regards the ratio to be fixed for the rupee, you say, towards the end of paragraph 15: "In the controversy that is carried on over the rate for the rupee the remark is often made that the agriculturist loses 40 crores of rupees as a result of the rise from 1s. 4d. to 1s. 6d. of the rupee. This statement cannot receive scientific support." I understand the support for your latter opinion is contained in the following sentence: "It cannot be forgotten that the rise in exchange will

bring down general prices in the country and consequently the agriculturist will gain on his purchases." So that your argument, as I understand it, is that although the agriculturist gets less for what he sells he pays less for what he buys, and you must look at both sides of the book in considering what he has lost or gained?—Yes.

9850. In order to do full justice to your argument I should read the next sentence: "To the extent, however, which his purchases are of commodities which are locally produced have only a local market and do not suffer from the competition of imported goods, he will not secure the benefit of a fall in price unless time is given for the adjustment of the prices of such commodities to the rise in exchange." That is what we have already dealt with?—Yes.

9851. You then proceed to a very full analysis of the reasons for and against the 1s. 4d. and the 1s. 6d. rate. If I may say so, the analysis is so full and clear that I really need not ask you to cover the ground again; but we begin to approach the conclusion in paragraph 23, and I understand that, on a balance of considerations, you finally come down on the side of 1s. 4d. Is that correct?—Yes.

9852. "The governing consideration," you say, "is the general interest of the country, and that seems to point more in favour of 1s. 4d. than 1s. 6d."?—Yes, Sir.

9853. Should I be right in thinking that your leading reason for coming down on the side of 1s. 4d. is contained in this paragraph, and particularly in the sentence: "1s. 4d. gold will mean in the circumstances at present increased rupee prices which will serve to strengthen industrial enterprise"?—That is one of the considerations and a very important consideration.

9854. Let me ask you, then, in order to appreciate the emphasis of your arguments, which are the other most important considerations in favour of the 1s. 4d. rate?—Between 1899 and 1917 we had been accustomed to 1s. 4d. gold and with that ratio India prospered more than during any other period in the history of the British connection. That is also an important consideration that has to be taken into account. Simplicity is gained and a certain continuity is maintained, and in currency matters as far as possible unless we have strong compelling reasons I do not see sufficient point in departing from the rate of 1s. 4d. There is another point. Just as devaluation involves repudiation, an increase in the value means an increased burden on the taxpayer in respect specially of the debt charges that he has to pay, and also on the private borrower in respect of his debts. Those are all considerations to be taken into account.

9855. I asked you the question in order to see which of the very nicely balanced considerations really are foremost in your mind. Let us take them one by one; and in asking you questions to test your opinions in that regard you will understand that the questions imply no preference on the part of the questioner. In the first place, you say "1s. 4d. gold will mean, in the circumstances at present, increased rupee prices which will serve to strengthen industrial enterprise." What would you say in reply to a critic who said: That is a familiar argument in favour of inflation all over the world at any time, and the common experience of countries which have tried inflation, increased prices, in order to strengthen industrial enterprise is that it brings with it a harmful reaction which does more harm than the original benefit?—I don't think it is right to compare this question of 1s. 4d. gold with the sort of inflation which occurred in some countries recently and which brought with it great harm. That way of putting it I don't think is quite fair to those who call for 1s. 4d. gold in this country.

9856. There is a certain superficial similarity, is there not?—Very superficial.

9857. What is the fundamental difference?—I should put it this way. Till a year back it did not reach 1s. 4d. gold owing to the disturbed conditions since 1920; so that to consider 1s. 4d. gold as inflation, to consider such a rate the result of inflation is giving the whole thing a bad name which it does not deserve. That is what I feel about it, Sir.

9858. I suppose what inflation means is increasing prices in order to stimulate trade by increasing the quantity of money in relation to the things which the money buys?—Yes.

9859. Is it possible to distinguish between your argument here where you say "1s. 4d. gold will mean, in the circumstances at present, increased rupee prices which will serve to strengthen industrial enterprise," and the argument of inflation?—I should think so; there is a distinction. Inflation has an evil odour about it. Where artificial currency is promoted and artificially the employer is benefited at the expense of the wage earner, that is one thing; here where industry is actually suffering as a result of a rise in the value of the currency, when an effort is made to keep to what has been obtaining all along, I do not think that is the same kind of inflation as the other thing.

9860. Really, if I might construe your argument, it would be this, would it not, Professor, that this is not inflation, because prices and conditions have not yet adjusted themselves to the 18d. rupee?—I do not think I would put it quite in that way.

9861. Do you think they have adjusted themselves? —They have not adjusted themselves, but that is not my main point. I do not see any particular point in this 1s. 6d. One could as well take 1s. 8d. There does not seem to me any compelling character as regards this 1s. 6d. rate. That is my difficulty as regards accepting this rate.

9862. We are going to examine the four principal reasons which you give. Before I pass on, I should like to say that I still do not quite apprehend how you would distinguish in nature the proposal which you make from a proposal to inflate in order to stimulate industry, unless your argument is that prices and wages and so on in the country are still substantially adjusted to the 16d. rupee. If they are still substantially adjusted to the 16d. rupee, then to adopt that ratio need involve no inflation; if they are substantially adjusted to the 18d. rupee, then a return to 16d. means, does it not, some measure of inflation?—The first question is whether they have adjusted themselves to the 16d. rate or even to the 18d. rate. That is the first point to be taken into account. I do not know whether they have adjusted themselves either. There has been a very short time, and that time has not been enough for the adjustment to come into being. The second point, as regards that question of difference in substance between one kind of inflation and another, I would put it in this way: when gold production increased and prices went up, the prices went up naturally and there was no evil odour about the word inflation then; one could not help it and there was nothing to be said against it; whereas if we increase artificially the paper currency and if prices go up and in that way stimulus is given to employers, that is a different thing; so that between the one kind of inflation and another there is a very important and substantial difference that has to be taken into account.

9863. That suggests this question: the market rate now ruling being 1s. 6d., could we establish 1s. 4d. without some artificial increase in the currency?—There must be some increase in currency; or if you establish the 1s. 4d. rate taking into account our reserves and the condition of gold prices, 1s. 4d. will immediately come into existence and there would be some loss to certain interests.

9864. May I have that last answer again? I am not quite sure that I followed you?—If, for example, India decides on having 1s. 4d. now, to my mind immediately the 1s. 4d. rate will be the ruling rate

9865. Immediately upon the publication of an announcement?—Quite so.

9866. Supposing the Government were to say: "We are going to establish the 1s. 4d. rate immediately," we may agree that the operations in the market would send the rate to 1s. 4d. But supposing nothing else was done and no measures were taken to let out currency, would the rate stay at 1s. 4d.?—No; the very fact that Government accepts the rate for the purpose of carrying out of certain measures which would result in a larger amount of currency being available to the public, that fact necessarily involves it.

9867. Having arrived at that fact we need not quarrel over the nomenclature, need we, whether it is inflation or not. Let me take your second reason. You tell us that the 1s. 4d. rate was established for a long period of time, and that during that time India was prosperous. Now, as I understand your argument there, India was prosperous because the rate was 1s. 4d.?—I do not agree to that point. India did not prosper simply because the rate was 1s. 4d.; that is merely a coincidence. Fixity of exchange was an important factor; but if we had had 1s. 5d. I do not say India would not have progressed. 1s. 4d. is a coincidence, but none the less there it exists.

9868. One hardly finds an argument there for the return to 1s. 4d.; one finds an argument for fixity?—At any rate it is those who want any rate other than 1s. 4d. that have to defend the position; there it has been existing and consequently it has the privilege of possession of the field.

9869. It does not possess it now?—Not now; but all these days we have had disturbed conditions.

9870. You have had many rates ruling since the 1s. 4d. rate?—Those were during disturbed conditions; 1s. 4d. was the landmark; these others were passing shadows.

9871. During the last two years has India been prosperous or not?—Yes; we have had good monsoons, and in this country if we have good monsoons we always have prosperity. But if world trade flourishes we have more prosperity. If world trade now flourishes as it did before the war, we would have more prosperity.

9872. Prosperity depends, as we know, in the first place upon good monsoons?—Yes.

9873. And, secondly, in so far as exchange is concerned, it depends upon stability of exchange?—Yes.

9874. Your third argument in favour of 1s. 4d. was, I think, from the point of view of its simplicity?—Yes.

9875. Would you expand that a little, because I do not quite follow that for the moment? What sort of simplicity do you mean?—There is not very much in that argument; it only means that we have been accustomed to that for a long time, for about twenty years, which period we associate with budget surpluses and with expansion of various administrative organisations: fifteen rupees make one sovereign; there is that amount of simplicity which we would rather not depart from unless we have strong compelling reasons; that is all I mean; it is not very much.

9876. As regards simplicity, that really is only of importance if you are going to have a gold coin in circulation in India, is it not, particularly the sovereign?—Yes.

9877. If you are going to have the sovereign in circulation in India it would be awkward to have no simpler ratio between the sovereign and the rupee than 13 and a recurring decimal?—Yes.

9878. Could that be got over by having a special Indian coin which would be a whole number of rupees?—To that extent it could be got over; that particular difficulty could be got over.

9879. Secondly, you refer to the advantages of preserving continuity. Might not a critic of that argument say that it is rather late in the day?—Quite so; there is not very much in that; it is not of very great importance; if you have strong reasons which induce us to depart from it, I would not press these considerations.

9880. I mean, so many rates have ruled since 1s. 4d., have they not?—Yes.

9881. There has, in fact, been no continuity?—Yes; but that could not be helped.

9882. Then your fourth argument, which apparently ruled foremost in your mind, is the question of the burden on the tax-payer?—Yes.

9883. I am not quite sure that I quite follow that, because it might seem natural to suppose that, if you reduce the gold value of the rupee to 1s. 4d. from 1s. 6d., considering that you have home charges to meet, that at first sight would involve an increase of the burden on the tax-payer, would it not?—Yes; but I did not mean home charges when I said that; I meant only the rupee debt, the interest on the rupee debt; that interest becomes more burdensome with a higher rate; that was all I had in mind; and also the land revenue rate; other things do not affect; they tend to adjust themselves to any rate.

9884. That burden on the tax-payer would adjust itself in the course of the readjustment of prices to the new rate?—Quite.

9885. As regards any temporary additional burden on the tax-payer, it would be just, would it not, to take into consideration the additional burden involved in meeting the home charges as a result of the fall in the rate?—I feel there is not really any substantial burden there; in rupees and in units of rupees there is an additional burden, but there will be more revenue with a falling rupee; the customs revenues will grow.

9886. It is of a like nature with the other considerations, is it not, Professor, that counter-adjustments would make the position, in the course of time, the same as it was before; but in the meanwhile there would be a disadvantage: you would have to provide more rupees to meet the home charges?—But the customs revenues would immediately improve and the burden on the rupee debt would immediately go down; so that as against the burden in respect of home charges you will have these advantages; they will cancel each other.

9887. And similarly, on the other side, customs would come down immediately?—Yes.

9888. So that it is really six of one and half a dozen of the other?—Quite so; there is not much in that.

9889. I do not think we quite exhausted the question as to whether rates of exchange, prices and rates of wages were adjusted. I should like to ask you in that connection, as a result of your study of this subject, can you refer the Commission to any illuminating evidence on the question of whether prices have adjusted themselves, and, if so, to what extent, to the 1s. 6d. rupee, or to what extent adjustments are still incomplete?— I cannot refer you to anything in particular.

9890. For instance, in the first place, there is obviously the index number, for what it is worth; but I was wondering whether you had any other positive evidence, apart from mere surmise, as to whether adjustments have taken place?—There is no other positive evidence. The rise is from 1s. 4d. to 1s. 6d. gold; the rise has only been recent and consequently there has not been yet time for prices and wages to adjust themselves; it is very difficult to make any definite statement about it.

9891. You would surmise that the time has been too short?—Too short.

9892. Now will you tell us in very brief outline, Professor, what your recommendations as to the basis for the Indian currency are, the standard for India?—The minting of rupees is to be stopped; and further accretions to the currency should be in the form of notes preferably and gold coins. Immediately there ought not to be convertibility of rupees into gold for internal purposes. We will have to wait for some time and see how the whole

system works when we stop the minting of silver coins. Another consideration that makes me cautious in respect of this affair is the extent to which the rest of the world would agree to have a gold currency in future. It is not yet determined. The instinct for the use of gold is so strong that one cannot be quite sure as to what European and American psychology would be with reference to the use of gold as currency. On account of these considerations, I would not immediately advocate convertibility into gold of silver rupees. But the goal is paper money backed by gold. That is the goal. That is the best currency. But in the conditions of this country with a large illiterate population it is better to have gold coins also in circulation. Not that I am fond of gold coins as such, but that that is a stage through which you have to pass in this country taking into account the general condition of the country before we have the best thing, paper backed by gold. That is my position, Sir, briefly.

9893. Practically you would cease the coinage of rupees; that is the first step?—Yes.

9894. You would, as I understand, take no other immediate step?—Except as I point out that Government and the leaders of public opinion should have a decided preference for the enlarged use of notes and gold coins. To my mind, the great difficulty in India, especially the war has made it a very real difficulty, is that we are tied not only to the value of gold but also to the value of silver. That puts a double handicap on Indian trade and Indian industry, and I would have it removed by the recommendation that I make.

9895. Government, and the leaders of public opinion, should use their powers of psychological suggestion in favour of a more extended use of notes. In the meanwhile, as I understand it, you would ensure the stability of the gold value of the rupee by a continuance of something in the nature of the pre-war system?—You mean council bills?

9896. Yes?—Yes, gold obligations are discharged by them. You want some such system.

9897. You say the success with which the 1s. 4d. system was maintained furnishes a clue as to the measures that have to be adopted now; so that you would continue to maintain the stable exchange value of the rupee by some such measures as those which are substantially similar to the ordinary exchange standard system?—Though as I said it is only a passing phase.

9898. And you would meanwhile be preparing the way for a gold currency?—Yes.

9899. You do, as I understand, contemplate that, as soon as possible, India should reach the stage at which it should undertake to give gold against rupees?—Yes, but I would wish that gold coins really do not circulate, that paper circulates. But I would undertake the liability to give gold in place of silver after gaining a certain experience.

9900. In the meanwhile would you be providing gold for circulation in any form?—Yes.

9901. In what form? By what measures?—Whenever industries increase in this country exchanges multiply. When foreign trade is prosperous, there will be need for more currency, either in the form of notes or in the form of gold coins, I would add to the currency. It is in that way that gold coins would come into circulation.

9902. Your notes would be gold notes?—Not necessarily, for the time being.

9903. Not at first?—I would wait so far as that is concerned. There is no harm in waiting.

9904. Do I understand that you would have a mint, and mint gold bullion into gold coins for passage into currency?—Yes.

9905. And that is the only definite measure you would take at first to provide gold for currency?—Yes.

9906. You would wait for the day in which you could convert rupees into gold?—Yes.

9907. How would you prepare for that day?—By stopping the minting of silver coins and by introducing gold into circulation and when notes are introduced to have a backing of gold. Increase the gold in the reserve, and then your direction must be towards having a currency backed by gold and also gold currency, since there will be a demand for metal in this country. I take it that there will be for a very long time to come a very large number of rupees in circulation, but they must be reduced to real tokens in the course of time. Experience must guide us.

9908. If you open a mint and mint bullion into gold at the new ratio, would you expect very much gold to pass into circulation in substitution for rupees?—That depends, as I told you, Sir, on the leaders of public opinion and the Government, and the education of the people in matters of currency. They were educated recently in respect of notes to a remarkable extent. And I hope also they will be educated in the direction in which I want the currency system to advance.

9909. You have told us that, in order to confront the day when you would undertake the convertibility of the rupee into gold, you would have to strengthen the reserves?—Yes.

9910. What measures would you take to strengthen the reserves, and to what extent do you think the reserves would have to be strengthened?—I would put it in this way. The interest on the securities in the gold standard reserve might be utilised towards replacing silver rupees in circulation by gold. That does not strengthen the reserve but it strengthens the general circulation in the direction of gold currency, and the silver rupees in the reserve might be converted also into gold. And the loss sustained might be met from the interest on securities in the paper currency reserve. These are the forms in which I would have the reserves strengthened. And another method is that when notes are introduced the backing will have to be in the future more largely in gold. These are the methods by which I should like the reserves to be strengthened.

9911. Have you been able to form any estimate as to the extent to which you might ultimately expect to have to convert rupees into gold when you finally announce the convertibility of the rupee into gold?—I have some idea, Sir. Of course, it cannot but be rough. It is in this way. I find that the amount of rupees in circulation is about 232 crores. And you find the paper in circulation is about 190 crores. When you compare that with the pre-war figures of rupees in circulation and notes, you find that our present currency, that is notes and rupees put together, come to about 50 per cent. more. Which corresponds to the increase in prices. And of these 232 crores in circulation of rupees and notes, large masses cannot be presented. I cannot conceive of more than say 100 crores being ever presented. Even if 100 crores are presented for conversion, and 100 crores at the utmost might be presented for conversion, even that I feel is a large figure. So that is the extent to which I feel one could contemplate the amount of conversion that may be called for. It is a very rough estimate, Sir.

9912. If I have understood you aright, you say that you would accumulate the gold to effect that conversion by drawing the interest on the gold standard reserve in India?—Yes.

9913. And you would let the process take so long as is necessary to realise that gold from that source?—It is not the only source, Sir.

9914. What other sources are there?—For instance when there is an expansion of trade, and new currency is required, new currency will flow in the form of gold.

9915. But that is required for addition to the circulation. That would not redeem the hoards. That is new gold against a new note?—Yes. So that the total circulation will more and more be favourable, will contain less and less proportion of silver rupees. In that way the situation will be

advanced in favour of the proposals that I have made.

9916. Then the cost of your suggestion to the exchequer would be the loss of the present realisation of interest on the reserves in aid of revenues?—Yes, Sir.

9917. And its devotion to the unproductive form of gold?—I would not say unproductive.

9918. Well, directly unproductive. It may have its ultimate benefits. That is the direct cost?—Yes.

9919. (*Chairman.*) That is all that I had to ask you in preliminary explanation. Perhaps you will be so kind as to deal with any supplementary questions that any of my colleagues may wish to ask in this matter.

9920. (*Sir Maneckji Dadabhoy.*) Mr. Duraiswami Aiyar, in discussing the question of ratio with the Chairman, you stated that in your opinion there seemed to be no compelling reason for adopting 1s. 6d. Am I to gather from your discussion that the balance of argument is as strong in favour of adopting 1s. 4d. as 1s. 6d.?—That is what I think.

9921. That is, any rate between 1s. 4d. and 1s. 6d. may be selected on the same balance of considerations?—It may be selected if they find that it has the balance of advantage after taking the whole situation into account. I would not try any new rate if it can be avoided.

9922. You have discussed the situation fully and in your opinion the balance of advantage does not preponderate in favour of 1s. 6d.—Yes, you have put my contention properly.

9923. That is your opinion?—Yes.

9924. Speaking about convertibility, am I to understand that you don't advocate a full measure of convertibility at the initial stage?—I would rather wait

9925 How long would you wait?—That depends as I told you, Sir, on the experience of measures that I propose should be undertaken.

9926. Yes, the educational value you speak about or rather the educational turn which you wish to give to the people round about will take some time?—That will take some time, but my main difficulty was the other thing. I am not very much perturbed by that, Sir. My main difficulty is the extent to which in other parts of the world people might care to have gold in the form of currency. I am not quite so sure that the European world is not going to have gold as currency. If I am convinced about that, then I need not be so cautious in the proposals that I have made. That is my main point.

9927. But in India the conditions are so widely different. Will the Indian mind accept the gold standard without some sort of gold currency at the initial stage?—Oh yes. I provide for that. I say that the coining of rupees should be stopped forthwith.

9928. But will that alone be sufficient?—As you have been noticing, in every country there has been an accretion to the circulation of currency from 1900 onwards and I hope, with the recovery of the world to normal conditions, you will find the need for expansion, and that expansion I desire should be in the direction of having gold or notes backed by gold.

9929. That is, accretions to the new currency?—Yes.

9930. But that itself will again take some time?—Time will be taken. But after all, when we gain some experience, we need not thereafter adopt a very slow pace; in the initial stages of course that will be so; but we see that the world is just recovering and we have not yet had the old foreign trade. You will find there has been an increase in the population of the world by 9 per cent. but we have according to the reports received not yet reached the foreign trade level of 1913, so that we are recovering.

9931. Then you advocate the introduction of a gold standard without the statutory obligation of converting rupees into gold?—I would not make it a statutory obligation straightaway; I would rather be cautious. But I would work in that direction, that would be our ultimate aim. I do not mean it would take a very long time. It must come fairly soon, but it all depends on circumstances.

9932. In answer to the Chairman about the adequacy of our resources of gold, you have pointed out that 100 crores may be brought forward for conversion?—Yes, as a rough estimate.

9933. And one of your schemes is that to which you refer in paragraph 33 in which you say, "The interest earned on the gold standard reserve investments and the paper currency reserve may be devoted to replace corresponding amount of rupees in circulation by gold." Will that alone be sufficient?—A number of considerations have to be taken into account, that is not my only recommendation. As I told you, further accretions to currency will take place in the form of gold or notes backed by gold. That alone will go a great way; and when experience teaches certain lessons, when we get to reach normality and see the extent to which gold will come into currency use in different parts of the world, we may adopt a more rapid pace, provided our finances also improve. There are so many considerations to be taken into account, and so I would proceed cautiously by not advocating a statutory convertibility of rupees into gold.

9934. You see when a Commission like this makes a definite recommendation for the adoption of a gold standard, it must have before it some definite and reliable data showing that there will be a sufficient quantity of gold at the initial stages for some years to meet the requirements. Without that it would not be safe to come to some definite decision. Now what is the position. I would like you to enlighten the Commission by your views on the subject—how we shall get over this difficulty of obtaining gold?—I thought when I explained my position I had made my point sufficiently clear.

9935. I have followed so far—from the point of view of accretions to the gold, that the accretion should be gold notes only; now I will put to you a concrete case. Supposing we introduce a gold standard, there is a lot of silver in the hoards at present, a large quantity will be brought forward in the first year or two. How much would be the quantity?—I do not know. But I do not think so personally, unless the monsoons failed; then there would be a provision, and the gold standard reserve would have to be used. But I do not expect a huge quantity of silver to come out. I do not think so, not a huge quantity.

9936. You do not believe then in the theory of hoards?—Not to the extent to which perhaps some others might believe. There are hoards. As a matter of fact I think in the Punjab and the ceded districts of the Madras Presidency when the cotton crop gets a very high price, naturally the peasant tries to keep in the form of a hoard a certain quantity of gold; especially in a country like India where monsoons fail, there must be some sort of provision, and so instinctively he turns to some sort of hoard. There is some sort of hoard, but it would not amount to a very huge sum. That would not be a great difficulty. That is my point.

9937. I would like to draw your attention to paragraph 31 in which you speak about the transfer of the note issue to the Imperial Bank. I cannot exactly understand the purport of that paragraph. Am I to understand when you speak about "the Government being directly associated with it" when the transfer might take place, that you recommend that there should be some sort of provision that the Government should be in touch and supervision and powers of control should be exercised by them and that the Imperial Bank should not be given the sole charge, the sole control of the currency, the note issue?—All my academic training is in favour of the Imperial Bank doing the whole thing, but in respect of the conditions of this country I would

rather proceed slowly. After a certain time it may be that the Imperial Bank will have to do it. As I told you, my prepossessions are in favour of that, but in view of the large place which Government fills in our estimation, I would wait for some time especially in view of the stopping of the minting of rupees and the extended use of gold as currency or of notes backed by gold. Now in these circumstances I would rather wait for some years, say 4 or 5 years.

9938. Then you mean you would not at present transfer the control to the Imperial Bank?—Yes, for 4 or 5 years.

9939. Why not for 4 or 5 years? You think in 4 years' time the Imperial Bank will be more efficient?—I am the last person to attack the efficiency of the Imperial Bank. The whole point is,—you already introduce certain fairly large changes. Taking into account the vast extent of this country, they would be fairly large changes. The proposals that I make with respect to currency involved a striking departure. The Government already manage the paper currency very efficiently to my mind. It has largely increased in circulation; so that I would keep it in the hands of the Government for some time. Not that I am very strong about this recommendation; all my academic training, as I said, is in favour of the Imperial Bank doing it but I would wait for some time.

9940. (*Sir Reginald Mant.*) In paragraph 15 of your memorandum you refer to the fact that the price of silver has not risen to the same extent as the price of commodities have risen, and you point out that there is a possibility of silver rising to the same extent as other commodities and that would constitute a danger to the 1s. 4d. ratio? Later on you recommend the adoption of the 1s. 4d. ratio. How would you get over the danger to which you have referred in paragraph 15 of your memorandum?—As I explained to the Chairman, Sir, there is some difficulty about it. But I feel that if you stop the minting of silver and if further accretions to currency in this country should be in the form of gold or notes backed by gold, the demand for silver is not likely to be as great as it was before the war, and consequently the price of silver is not likely to rise to the level of the price of other commodities. So to that extent the danger is not great; but there is that difficulty as regards that point, that is why I have mentioned it. That is one point in favour of a rate over 1s. 4d. but when once you adopt the method of stopping the minting of silver, the danger becomes very much attenuated because we are departing from the use of silver rupees for currency purposes slowly and steadily,—we are moving on to another line and consequently the danger is not so great.

9941. But do you think that the reduction in the demand from India will have such a large effect on the world price of silver?—A fairly large effect. The Indian demand has not been small.

9942. Would it be sufficient to minimise that danger?—Yes.

9943. There is only one more question. What do you mean exactly by the expression you frequently use, "paper backed by gold"? Do you mean notes convertible into gold?—Yes.

9944. Notes payable in gold on demand?—Yes.

9945. Because you say in your last paragraph that "as a first step we may content ourselves with stopping the minting of rupees and increasing the circulation of gold coins or paper backed by gold." Do you propose then at the outset of your scheme to introduce . . . ?—That I do not mean,—that means the reserve will be strengthened in the direction of gold.

9946. What do you mean there by "paper backed by gold"?—That the reserve is to be in the form of gold; in course of time there ought to be convertibility.

9947. And "paper backed by gold" does not mean notes convertible into gold?—No it does not mean immediate convertibility.

9948. (*Professor Coyajee.*) You observe in paragraph 7:—"But recently it (*i.e.*, internal price stability) has been put forward as something to be maintained as against the stability of the external value of the rupee," and also in paragraph 9, in the last sentence, "The importance of internal price stability is therefore liable to exaggeration." Might not a critic say this, that the internal stabilization of prices is particularly important to India chiefly because the population is poor? You see, the poorer the population, the more they would feel any swing upwards?—I do not think so. Of course it is a question of degree. When prices go up very much, there is then always trouble, it is never healthy for any country; of course small ups and downs of price seem to be inevitable.

9949. I quite agree?—But that is all that is meant there.

9950. Then in paragraph 13 you observe, "The prices of pulses, jowar, ragi, chillies, and similar commodities which are consumed in the main locally will be affected very slowly by a rising rupee." But now there is a connection between the prices of goods entering into international trade and other goods; for instance if the price of wheat falls, then the cultivator will divert his land to ragi and other things?—That is why I say there is a lag; the lag should be made up in course of time; I quite agree.

9951. Then as regards the question of the ratio, I would submit for your consideration one argument which has been put forward for the 1s. 6d. rate. It is said that since the pre-war period a permanent change has taken place in the scale of production of goods in India. That is to say, our cotton mills have largely increased their production, that our production of steel has increased and so on and consequently our imports have tended to become less and our exports continue as they were and therefore the balance of trade is becoming more and more favourable to us as time goes on. That is the argument put forward and I submit it to you for your consideration?—I cannot agree to that.

9952. Because the local production has increased very largely, the imports have fallen and therefore our balance of trade tends to become more and more favourable hence why should not the rate of exchange respond—that is the argument?—I put for your consideration this:—America has increased its production, its favourable balance of trade has grown, therefore why not the dollar be made to contain more gold?—It comes to that.

9953. But the dollar relative to sterling increased very greatly in value?—So that applying the same argument, why should they not put more quantity of gold into the dollar? The argument does not appeal to me.

9954. (*Sir Alexander Murray.*) I think you said to the Chairman that produce of exportable commodities would benefit more than producers of non-exportable commodities by a fall in the rupee?—Yes.

9955. What percentage must be exported to justify a commodity being classified as exportable?—You send them out largely:—Oil seeds, hides and skins, raw cotton and so on.

9956. Let us deal with food grains particularly, because you differentiate between food grains and other things, don't you? What are the food grains that are exported?—Wheat has a world market and so the world prices have more to deal with wheat.

9957. And rice?—Rice to a less extent than wheat, because our total production is so large that this will have a greater effect on world prices than our production of wheat.

9958. In view of the fact that the total wheat crop grown in India is about 10 million tons and

there is only 1 per cent. or 2 per cent. exported, you mean to say this 1 or 2 per cent. will affect the price of the remainder?—It is not that 1 per cent. The whole of the total crop of the world, it is that that affects the price of wheat. It is not a question of 1 per cent. or 2 per cent. which India exports.

9959. That is quite true. But would you say that the exports of a smaller percentage than 1 per cent. affects the price to the consumers in India of the remainder of the crop?—No; that is not what I mean, because it is not right.

9960. What do you actually mean?—I beg your pardon?

9961. What percentage of the crop is to be exported to include it under the category of an exportable crop as against the non-exportable crop?—It is not a question of percentage there. Say things like ragi, chillies, and millets are non-exportable crops.

9962. Will you include jowari and bajri?—No; I would not consider them as exportable crops.

9963. We take it that rice and wheat are exportable crops and that jowari and bajri are non-exportable crops?—Yes.

9964. Now do the prices move differently?—Yes; I would put it this way: that is, those that international prices affect and those which international price levels do not affect to the same extent readily.

9965. In spite of the fact that food stuffs react on each other?—Yes; as I said already there is a time lag. It is all a short period difficulty.

9966. Have you any figures to show that there is a difference in the prices ruling for the exportable commodities as against the non-exportable commodities?—That is very difficult; because it is a question of various factors being taken into account.

9967. In the Labour Gazette, I find figures here giving the price levels of the four articles we were referring to, rice, wheat, jowari and bajri. Taking 100 as the basic price, the index figure in 1914, in October, 1925, rice was 129 points, wheat 124 points, jowari 128, and bajri 130. Now is there anything in these figures to bear out your point that we must defferentiate between the prices of food stuffs that are exported and of those that are not exported?—These figures are not an exhaustive criterion. So many factors enter into the problem. You can only deal with it from a theoretical point of view.

9968. But we are dealing with the actual prices paid for these food stuffs in the country. Don't they give you a fair indication that there is really no difference in the rise and fall of food stuffs whether they are exported or not exported?—It is not exhaustive; it is not conclusive; because the question of supply enters and we do not know about the supply of rice as against the supply of javari or bajri.

9969. I will give you the figures of the total crop?—You know about the outturn figures. In the Taxation Committee they said that outturn figures are not quite reliable and commercial men do not so much depend on them except for jute.

9970. You make the statement that there is a difference between the two sets of food stuffs and I indicate to you from such figures as are available that there is no difference and I produce figures and you simply say that no figures are reliable; but can you not produce anything to support your argument?—I am not wedded to anything here. My theoretical training inclines me to believe that there seems to be some difference.

9971. Then you give some data?—It is not in my power to give. These data must be furnished by other authorities. If they are available then one can weigh and interpret them.

9972. You must have expressed your opinion from some data?—Not exactly. It is not that kind of data. We should have the figures of the supply of crops. I would explain my position in this way. This is a question of commodities entering into international trade and commodities that have a local market. Naturally, the prices of commodities having world market will be adjusted, must be adjusted, to the world price, whereas the prices of commodities which have a local market need not be adjusted so rapidly. Say, for example, the currency of the country is very large in which case, if the world prices fall of the commodities that enter into international trade, the prices of such commodities produced in this country also must fall; but as regards other commodities, this large currency will then tend to keep up the prices of the other commodities.

9973. That is perfectly true; but the point I want some information from you on is this. Do prices of the food stuffs not react on each other to such an extent that ultimately there is really no difference in the price levels between exportable and non-exportable food stuffs?—Ultimately it is true.

9974. And I give you figures relatively to show that between 1914 and October 1925 there is no difference?—There is not very much difference between your point of view and my point of view.

9975. Exchange has been rising for the past three years, 1921-22, 1922-23 and 1923-24. Well now, the exports on the other hand one would have thought would have been affected. But as a matter of fact they have also been rising. The figures of export seem to show that the rise in exchange has not unduly affected exports of rice or wheat or such like commodities from India?—That is quite conceivable. In the period, 1918-19-20, exchange was rising; exports were rising. It is a question of world prices for particular commodities that India produces. Exchange is not the only factor. That is the great point. Monsoons might be favourable. So that one can conceive that kind of correspondence. Other things remaining the same, it will be affected. But other things do not remain the same. Monsoons have been favourable. If world conditions are favourable, then with the increase in exchange there should also be increase in exports as was the case in the period from 1917 to 1920.

9976. In paragraph 22, you refer to index numbers of wholesale prices during the period from October 1924 to August 1925. You refer to the prices ruling in the United Kingdom and those ruling in India. Now I have taken out here the prices of those countries that have run on to the gold standard, namely, the United Kingdom, the United States of America, Canada, Netherlands, Sweden. In 1924 India was roughly at least 20 points higher than the average of the wholesale price level of those other countries. In August 1925, that is the month you have taken, India is practically in line with all these other countries round about 160. There are six gold standard or exchange standard countries with a price level at the same figure. What does that suggest to you, Mr. Aiyar?—I will put it in this way. Between 1900 and 1914 there was gold standard obtaining in different countries; but the rise in prices was different in different countries; so that you can conceive of the standard remaining the same, yet price levels rising differently in different countries. The use and abuse of index numbers, that is an important point. The way in which index numbers are compiled in different countries, the commodities that enter into this preparation, the extent to which the commodities enter into the world trade or have a local market, all these make me rather be very careful in the matter of arguing from index numbers. It is some sort of guide; but we cannot swear by index numbers especially where small changes are concerned.

9977. It is a coincidence, to say the least of it, that all these countries have their index levels at almost exactly the same figure. Would that not suggest to you that it is a suitable time to stabilise

at 1s. 6d.?—That itself may tell me that when all those countries which had returned to their old gold parity maintain 160 and India also maintains 160, 1s. 4d. the old parity is more appropriate. That shows that there has been a lack of adjustment of the price level and therefore one must be more anxious about it.

9978. If India had 1s. 4d., then the price level would not be 160? It is the fact that it has 1s. 6d. and that the price level is 160?—I won't dogmatise on that for the reason that I have already mentioned.

9979. (*Chairman.*) Is there anything on which you care to supplement any matters which we have dealt with to-day?—Nothing in particular.

9980. (*Chairman.*) The Commission is very much obliged to you for your memorandum and for your attendance here to-day.

(*The witness withdrew.*)

TWENTY-SIXTH DAY.

Wednesday, January 6th, 1926.

PRESENT:

THE RIGHT HON. EDWARD HILTON YOUNG, P.C., D.S.O., D.S.C., M.P. (*Chairman.*)

Sir RAJENDRANATH MOOKERJEE, K.C.I.E., K.C.V.O.
Sir NORCOT HASTINGS YEELES WARREN, K.C.I.E.
Sir REGINALD MANT, K.C.I.E., C.S.I.
Sir MANECKJI BYRAMJI DADABHOY, K.C.I.E.
Sir ALEXANDER ROBERTSON MURRAY, C.B.E.
Sir PURSHOTAMDAS THAKURDAS, C.I.E., M.B.E., M.L.A.
Professor JAHANGIR COOVERJEE COYAJEE.
Mr. WILLIAM EDWARD PRESTON.

Mr. G. H. BAXTER, } (*Secretaries.*)
Mr. A. AYANGAR, }

The Hon. Sir BASIL P. BLACKETT, K.C.B., K.C.S.I., recalled and further examined.

9981. (*Chairman.*) Sir Basil Blackett, you have been good enough to travel from Delhi in order to give us a further opportunity of obtaining the benefit of your assistance before we conclude our sittings in India. It is not our intention to occupy your time with any formal repetition of all the matters we went into so fully at our Delhi sittings, but we all feel that there are various new matters, new considerations, which have come to light in the course of the evidence which we have received at Bombay and at Calcutta, about which it would be very useful to us to have the benefit of your opinion. In the first place, during the previous evidence which we received from you, the greater part of our attention was devoted to the discussion of proposals for a gold currency and a full gold standard, and it appears to me that it would be very useful that we should go in a little more detail into alternative proposals for some form of an exchange standard in order that we may be sure that we have ascertained to the full what your opinions and recommendations are about that alternative. Let me ask, in the first place, a general question, and that is what, in your opinion, are the essential qualities or characteristics which we should seek to obtain in designing any reforms in the Indian currency system?—May I preface my reply in the same way as before by repeating that I do not speak on behalf of the Government of India; by way of precaution I think it best to mention that. The two essential desiderata in any reform of the currency system of India should be that the Indian people should have full confidence in their currency and that the system should be reasonably intelligible to them. Simplicity and confidence would be my two desiderata.

9982. And confidence, no doubt, results from simplicity and intelligibility as much as from anything else?—The two go together, yes.

9983. In the past we have reason to suppose that confidence has not been felt in the pre-war system, but, on the contrary, there was a certain amount of suspicion with regard to that system. What were the reasons for that?—I think the defects of the pre-war currency system have been greatly exaggerated. It is largely a question of psychology. There has been a widespead feeling that in some obscure way forces are always at work to manipulate anything but a gold standard to the disadvantage of India. It is a feeling which I think is entirely devoid of foundation but is all the more difficult to counter for that reason. I think that the suspicion felt in regard to the pre-war system was in large measure duo to the fact that the system was complicated, not easy to understand or explain, and was open to misrepresentation. The common ground of attack was that it was a manipulated system, a managed or a manipulated system. Of course the unfortunate history of the reverse councils in 1920, when there certainly was perhaps one may say some mismanagement, has increased the suspicion, and I think the primary demand of India in consequence is for a system which is not capable of manipulation.

9984. Is any currency system wholly free from an element of manipulation?—Every currency system is in a sense a manipulated system or at any rate, to use a more neutral word, a managed system. You will see that in the attacks on the discount and credit policy of the Bank of England at the present time or the Federal Reserve Board. There is a public at any rate there, which clearly recognises

that the British and American system are managed systems; but at the same time it is possible I think and certainly desirable if possible and I should say it is essential in order to establish confidence to make the Indian system automatic.

9985. I understand that any currency system that is known is, in a sense, a managed or manipulated system in so far as discretion is exercised in the control of credit through the discount rate?—Yes.

9986. And, to some extent, in so far as there is any opportunity of a discretion or of legality in the maintenance of the appointed proportion of reserves either to actual currency or to deposits?—Yes, an automatic system carries with it its own danger signals, but if they are disregarded by those who are responsible for the credit and discount policy the system fails to work, and it is just as much manipulated if it goes wrong because the discount policy is wrong as if it goes wrong because the actual management has been wrong and additions to the currency have been too easily made.

9987. In India we have the characteristic condition that, owing to the nature of the civilisation of the country, the discount policy is still a matter of less direct moment than it is in Western Europe?—I doubt if that is entirely the fact. It has loomed less large in the consideration of currency questions but I believe that it is the kernel of the matter in India just as much as in any other country.

9988. You arrive at the conclusion, then, that the Indian system must remain as free as possible from the element of manipulation?—Yes.

9989. I am now discussing the alternative to the gold standard of an exchange standard of some sort at the present time, and in order to cover that ground fully I should like to ask you, on that assumption, what measures you would recommend to that end of freeing the system from the element of manipulation?—The assumption, I understand, is that for some reason the gold standard is regarded as impracticable. I think there are two important points. One is the fixation by statute of gold import and export points; the other is the amalgamation of the reserves, the gold standard and the paper currency reserves, the whole being managed by the Imperial Bank of India with statutory provisions regarding the reserves to be held. I think whatever the system adopted, whether it is a sterling exchange standard or any other standard, the fixation by statute of gold import and export points makes the currency as automatic as any other currency system in the world.

9990. The measures that you recommend are four in number, are they not; the fixation by statute of the import and export points; the amalgamation of the reserves; the transfer to the Imperial Bank of the control of the paper currency; and statutory provisions regarding the reserves to be held?—Yes, they can be separated into four.

9991. After the adoption of those measures, expansion and contraction would then depend upon natural forces and the discount rate?—Provided that the discount policy was properly managed expansion and contraction would happen automatically and the exchange would vary within the gold points in accordance with seasons and state of trade and so on. So long as the dicount policy was properly managed there could be no variation except within the fixed points.

9992. What defects would then remain in the system?—I would say the two defects mentioned in my previous evidence are the main ones. Assuming it was a sterling exchange standard there would be no provision against the possibility of sterling being divorced from gold again.

9993. There would be that possibility?—There would be that possibilty: and the other is that so long as the rupee is unlimited legal tender there is no protection in the system at that stage against the possibility of silver rising above 48d. Once silver does that, if the rupee remains unlimited legal tender, it would automatically become a silver standard.

9994. Taking those two defects in order, can you make any suggestion in order to deal with the first defect, that is the defect of the possibility of the divorce between gold and sterling?—Yes; that can be remedied fairly simply, though it involves a certain amount of cumbersomeness, by fixing the import and export points by statute with reference, not to sterling only, but to gold standard countries generally on the lines indicated in the memorandum by Mr. Denning on the subject of, I think, Transfer of Paper Currency. That would bring India really absolutely into line with the currency system now in force in England and those countries in Europe which have restored their currencies to the gold standard. They call it a gold standard, but in point of fact it is really an international exchange standard.

9995. Just one question before we pass on to that. I understand that the actual mechanism would be that the currency authority, instead of selling sterling only, would sell the currency of any recognised gold standard country?—It would be under a statutory obligation to do so, at any rate, on at least one other gold standard country besides England under this proposal. It would be possible, I think; at least I have never seen a satisfactory scheme, but I would like to see some arrangement by which instead of undertaking to sell exchange on a gold standard country it gave gold for export, provided it was perfectly clear that the gold was for export.

9996. May I leave that for a moment because I want to explore the first suggestion. If you undertake to sell the currency, say, of two gold standard countries, I suppose theoretically if both those countries wandered from gold you would be under the same disadvantage as you were at first?—Yes I suppose you would; and of course it is always a probably contingency that if sterling goes off gold any other currency equally would go off gold also.

9997. It might be said that the same shock which would shake sterling away from gold would shake almost any currency away from gold, with the possible exception of the United States?—Yes, it would depend upon where the trouble arose; and you might have the reverse position that the United States was shaken off the gold standard and England would be one of the few countries that was enabled to stay there.

9998. So that, by increasing the number of foreign currencies which you sell against the internal currency, you are only increasing your practical guarantee of its being a gold standard, and not making an absolute theoretically impregnable defence?—I contemplate that the statutory provision would be that at least one other currency besides sterling must always be specified for the Imperial Bank as a currency in which it must be willing to buy and sell at a fixed rate, and it would be within the competence of the authorities at any time to add other currencies to that list or to take currencies away from that list, so that if you had the position that both sterling and the second currency which had normally been used were off the gold point, the authorities would then have the duty of fixing some other currency which had remained at the gold point.

9999. The authority would be free to pursue the currency which managed to maintain its parity with gold?—Yes.

10,000 You tell us that this scheme which you have outlined would bring the Indian currency into line with those of Great Britain and the other countries which are now on a so-called gold standard?—It would, subject to the question, which perhaps can be dealt with separately, the position of the over-valued rupee; and subject to this other exception that at the present time in the other countries which have adopted an international exchange standard,

gold is given for internal purposes by the currency authorities, in some cases gold coin and in all cases gold bullion; the central reserve is liable to pay out gold bullion on presentation of internal currency, and it is not I assume contemplated under any exchange standard that that would be done in India, because that is really the kernel of the proposal made in regard to the gold standard, and the assumption is that this is not a gold standard.

10,001. But, as a matter of fact, in all other countries of importance from the point of view of the currency system, gold is not used in circulation?—No; all the advanced countries of the world have given up gold for circulation; but gold bullion is given for internal purposes from the central reserve in theory; in practice gold is obtained only to a very small extent, if at all, from the central reserves, and is purchased in the market in the ordinary way, just in the same way as India purchases gold in the market.

10,002. Referring to the system of Great Britain, all that can be obtained there is the minimum quantity of gold bars, very little for internal use?—Of course you can get 400 fine ounces, I think that is the amount of gold in exchange for internal currency. Now that can be obtained otherwise than for export as I believe is the case since the 1st January. It is always possible for people who want gold for the arts and for the wholesale dealer in gold so to speak, to obtain it from the central reserve and to sell it in smaller quantities to his customers; but in practice it is nearly always as cheap or cheaper to obtain gold in the market rather than from the Bank of England.

10,003. Under such a scheme as has been outlined, would there be any difficulty on the part of the Indian public in obtaining the gold required for the arts and for purposes of female adornment and so forth?—No more difficulty than there is at present, that is to say, none. At present India can get all the gold she wants in the open market at the ordinary market price. India is under no disability at the present time as compared with any other country in the matter of obtaining gold for internal purposes. It can obtain it in the open market by using its internal currency in order to buy foreign exchange and using the foreign exchange in order to buy gold, and it is really in exactly the same position as regards obtaining gold as any one in any international exchange standard country.

10,004. Silver hoards would come out to be replaced by gold?—It could be done even now; it is just as possible now; the holder of a silver hoard would be equally able to do it under the proposed gold standard arrangement if he wants to do it.

10,005. But we should still be left, should we not, with the complication of a silver note and the convertibility of the paper note into the silver rupee distinguishing the Indian system from other systems?—Generally speaking in the other international exchange systems the only unlimited legal tender is the paper note, inconvertible for internal purposes, but made absolutely convertible into foreign exchange by the currency law. There are as a matter of fact some exceptions; one was I think mentioned by me when I was giving evidence before, namely, the five-franc silver piece in France; and perhaps more important is the silver dollar in the United States; there is a limited number of silver dollars in the United States which are not being added to; they are absolutely full unlimited legal tender which circulates mainly, not in the form of the silver dollar, but in the form of the silver note based on the silver dollar in the treasury; but subject to that the normal arrangement in other countries is that paper is inconvertible for internal purposes, but absolutely convertible for purposes of external payments. In India in addition to the paper note there is in circulation the silver rupee with unlimited legal tender privileges and in addition the paper notes in India are convertible into silver rupees. This has always seemed to me to be the root of most of the difficulties and most of the complications of the Indian currency system.

10,006. If that be so, if we are left with those remaining difficulties and complications, is there, in your opinion, any manner in which they can be remedied?—In my opinion (I gave it last time) the only easy method by which this defect can be got rid of is by making the paper currency of India convertible into some other metallic currency, that is to say, into gold, and eventually taking away the legal tender privileges of the silver rupee. But that involves the adoption of the gold standard, and I gather that the question put to me is what alternative is there which I would advocate if the gold standard is for any reason found not to be possible.

10,007. We understand from your previous evidence that, in your opinion, the most, and indeed perhaps the only, satisfactory method of remedying these defects in the Indian system is by making the rupee first of all convertible into gold and finally dethroning it from the position of unlimited legal tender?—Yes; I advocated the adoption of a gold standard with a certain amount of gold in circulation and the internal currency absolutely convertible into gold; but I advocated it only as a necessary step in my view in the direction of the still more ideal form of currency, namely, an international exchange standard by which I mean a paper currency inconvertible internally, but freely convertible on a gold basis for external purposes. The view I put forward was that it was necessary for India to pass through this intermediate stage of having gold in circulation although it is a wasteful and expensive system in order to arrive eventually at the more perfect one and I advocated it because I believed and believe that the gold standard would inspire confidence and would provide the stimulus which is so badly needed for investment and the banking habit.

10,008. That was your original evidence which we have in mind. In order to explore the possibilities of an exchange standard, assuming for the purposes of discussion that a gold standard is not to be had, the question then arises, could anything, and, if so, what, be done to remedy this element of difficulty and complication due to the double form of note, the paper note and the silver note?—Since I gave evidence last time my attention has been called to one plan for obviating the difficulty which has in my view very considerable attractions always assuming that the gold standard itself is not available. The difficulty is that if silver rises above 48d. and the silver rupee remains unlimited legal tender, the exchange standard becomes deranged in India so that I would make it as an additional proposal that the right of the holder of the note to obtain payment in silver rupees should be taken away or rather that the existing notes should gradually be replaced by notes which did not carry this right of conversion into silver rupees. I would suggest that the Government of India should cease to coin rupees, that there should be, in place of the existing notes which are a promise to pay so many rupees, a note like the English note which is a piece of paper representing ten shillings or one pound. In the same way you might have a piece of paper representing so many rupees, 10, 5, 100 rupees, which would not have the legal privilege of conversion into silver rupees. The holder of such a note would under this proposal have the absolute right of obtaining international currency at par for his note, but he would not have the legal right to get it changed into silver rupees.

10,009. The note would then be on precisely the same basis as the British note?—Exactly the same. It would be a piece of paper representing so many rupees.

10,010. How would this work out in practice? I imagine that there would be no immediate difference to the holder of the note?—No, I think the holder of a note would really be for practical purposes in the same position as he is now. So long as there was a large surplus of silver rupees as we have at present, there would be no difficulty whatever in giving the

holder of the note change, in giving him silver rupees for his notes; the Banks would give him silver rupees for his notes as a matter of ordinary practice, and he would get notes or rupees whichever kind of currency he wanted entirely according to his own preference. I contemplate that the transition from Government notes convertible into silver rupees to Imperial Bank notes not so convertible would be a gradual process which would take several years, a good many years altogether, but the main transfer would take several years and the two kinds of notes would for a long time be in circulation side by side and interchangeable, and the holder of either kind of note would in practice have obtained silver rupees for them whenever he wanted. The position would be fully established before the new note had entirely replaced the old one. Meanwhile the obligation on the currency authorities to give silver rupees would have disappeared, and the note would be no longer a promise to pay rupees but simply a piece of paper representing a certain number of rupees, inconvertible internally but absolutely convertible for external purposes.

10,011. Then the holder of the note would find no practical difficulty in obtaining rupees against his note, although it is no longer legally convertible into rupees, until the cessation of the coinage of rupees, coupled with the natural absorption of rupees, had substantially reduced the number of rupees outstanding, which would be a long period?—We have of course a surplus at the present moment of 90 crores of silver rupees in our reserves, and there does not seem to be any great probability that we should run short of rupees at any rate till towards the end of the next decade, that is to say not for nearly 10 years if not for more.

10,012. Do you propose that the 90 crores should gradually pass into circulation?—Yes, that would be the suggestion.

10,013. The cessation of coinage would not imply a cessation of issue?—Certainly not.

10,014. Would you alter the position of the silver rupee in circulation at all?—It would be unlimited legal tender for the time being but the holder of a note would no longer have the right to obtain rupees for it although the rupee and the note would be unlimited legal tender.

10,015. Then as, on the one hand, this proposal would make no immediate practical difference, so, on the other hand, it would provide no immediate practical remedy for the complications of the system?—I think it would provide a very considerable remedy, not perhaps a complete remedy, for the complications of the system, but it would I think provide a very useful remedy against the contingency of silver going above 48d. because if the contingency arose in India, in which the bullion value of the rupee was greater than its currency value, it would be a simple enough mattter to print off one rupee notes and allow the silver rupees to be melted down.

10,016. The difficulty now being that you must have rupees to provide for the right of conversion into rupees?—There is the promise to the holders of all the notes now out that you will give them silver rupees when they ask for them. Therefore so long as those notes are in existence you must have rupees to give them. But if the notes in circulation were no longer a promise to pay rupees, it would no longer be necessary for you in an emergency to provide silver rupees with which to meet that obligation and you could provide one rupee notes which for purposes of actual circulation would be equally useful with one rupee coins.

10,017. I understand that, as an incident of this proposal, you would restore the one rupee note into circulation?—Yes, I would restore it, possibly not immediately, but fairly soon, at any rate as soon as there began to be any considerable fall in our present holding of silver rupees. I would be inclined to suggest also that when you did get that, you should make the one rupee limited legal tender for Rs. 50 only, not give it unlimited legal tender privileges with the silver rupee or the bigger note.

10,018. What would be the object of that proposal?—It would accustom the people to Rs. 1 being limited legal tender and might eventually lead on to a position of affairs when you could possibly recoin your rupee with a smaller silver content or possibly make it of some other metal such as aluminium and take away the legal tender privilege.

10,019. Might it not be said, on the other hand, that if you desire to encourage the use of the small note in circulation, it is most important that there should be no impression created that there is any difference in status between the one rupee note and the silver rupee?—It might be desirable I think to experiment and see whether the limitation of the legal tender privilege of the one rupee note really would in practice have any effect. If you found that it militated against success, then perhaps you could restore its legal tender privilege.

10,020. In considering the possible criticisms of this last proposal, that is the policy of inconvertibility of the note into the silver rupee, what answer should be given to a point of view, were it advanced, that in view of the habits of the Indian people and the degree of civilization to which the uninstructed have attained, it is essential that there should be some metallic coin in circulation?—Of course there would still be a metallic coin in circulation, namely, the silver rupee.

10,021. Then let me put it in another way, that it is essential that the note should be convertible into some metallic coin for circulation?—That is a view which of course has been held strongly and was held quite strongly in 1917 when the question of obtaining silver with which to maintain the convertibility of the rupee at that date was an acute one. But as I said last time there has been a great deal of education in the matter of currency all over the world in war and post-war period, and from such information as I have been able to obtain by asking questions on this point, it does not seem to be thought that there would necessarily be any very great difficulty in maintaining a note of this sort in circulation. What one proposes is that the Imperial Bank should take over the currency, should start replacing the present Government of India notes by Imperial bank notes, but these notes would be not promises by the Imperial Bank to pay but notes representing particular amounts of rupees; and if the one change, namely the substitution of the Imperial Bank note for the Government of India note passed without comment, one would expect that the other might pass equally; it would be a matter of experience to some extent during the period when both notes were circulating side by side whether there was any definite dislike of the new note as compared with the old.

10,022. We have understood from your evidence on previous occasions that, in your opinion, the fact that this note was a Bank note would not create a disturbance in the public mind?—That is the impression that I have received from such inquiry as was possible on a subject of that sort. It is not a matter of course on which one can be absolutely dogmatic.

10,023. I imagine you would attach importance in connection with this proposal that the note should no longer be convertible into rupees, to the circumstance that no actual difficulty in obtaining rupees for notes would be likely to develop for a long period of time?—There should be no great difficulty in obtaining rupees for notes just as there is no difficulty in obtaining shillings and half crowns in England for 10 shillings and one pound notes. There is no legal obligation on anybody to give change for a pound note and the same would be the position here. There would be no legal obligation on anybody to give rupees in exchange for a rupee note. But in practice, every Bank would be bound to do so in its own interest and everybody would, in practice be, as I said before, as well able to obtain rupees

as he is now; and of course, the change will also be coincident with the introduction of a provision making the rupoe note absolutely convertible into international exchange.

10,024. You have told us the outlinos of an exchange system, and I should now like to ask you a goneral question. What in your opinion, would be tho offect of such a system upon the public mind in inspiring that confidence which is, you told us, inspired by the simplicity and intelligibility of a system?—It would, I think, be a vory much simpler and more intelligible system than the present one. It might not seem to be so at first sight. But thore would not be the complication of the silver rupee. The position would be that the currency would consist of paper notes and silvor rupees, absolutely convertible into international currency at the will of the holders, with one single curroncy reserve, management of the currency entirely in the hands of the Imperial Bank, neither the Government nor the Imperial Bank having then any power to add to the currency at will, the systom absolutely automatic, parity with gold established by statute and a managed system only in the sense in which the United States or English systems aro managed. I think it will be a system which would be capable of being explained and boing made intelligible to poople of ordinary intelligonce. It would not be so complicated as the present system. I have already said that I don't think, at least I would say that I don't think that it would inspire such complete confidence as a gold standard with the currency convertible into gold coin, so that it would not create immediately that stimulus for tho investing and banking habits which I look for from the gold standard; but if it was introducod in propitious circumstances with good will all round, I believe that it would create confidence such as does not exist or has not perhaps existed in recent times.

10,025. Two further questions before we leave the subject of the exchange standard. Assuming some such system as that we have now been discussing, are you in favour of adding to that a provision making gold coin legal tender and available through a mint?—I don't see what purpose will be served by doing so. It would only complicate the position. In my viow, the only purpose of a gold coin, the only usefulness of having a gold coin in circulation is if the currency is convertible into that gold coin: that does give confidonce; but that involves a gold standard with gold in circulation. If gold has merely an optional circulation, I don't see the object of introducing a gold coin. It seems to me to be a mere embroidery of the system without gaining any advantage for India. It is an unnecessary and wastoful way of using gold. There is strong argument in my opinion for giving a gold coin to India if you make the rest of her curroncy convertible into gold coin. But I don't regard the gold standard with gold in circulation as the ideal. I regard tho international exchange standard as the ideal and if you come to the conclusion that for one reason or another, the immediate or the early introduction of the gold standard is not possible, I would suggest that the proper course is to tell India so, explain the reasons why it is not possible and mako an effort then to get immediately on to the ideal system, namoly, the international exchange standard. I do not soe why if you are going to give India the international exchange systom, you should try to disguise that fact by putting gold into circulation optionally. I do not think camouflaging is the way to inspire confidence.

10,026. I undorstand that, in your opinion, in so far as you had gold in circulation, that would be an expense, a locking up of a value which might be better employed?—Yes.

10,027. And also, in so far as gold might replace notes in circulation, it would make your currency less elastic?—I should not expect the gold to replace notes to any large extent if you had as the gold coin a 20 rupees mohur as has been suggosted; but in so far as it goes into active circulation, it does to some extont roduce the reservo—I am distinguishing again between circulation and hoards, and in so far as it replaces notes, it does make the currency system loss olastic.

10,028. Now might I put an opposite point of view? Assuming it as definitely announced that the policy is an exchange standard, accepting what you say there as to the dosirability of a definito announcomont, and recognising that the difficulty of such a standard may be that at first it does not inspire confidence, would it have any appreciable effect in incroasing confidence in the exchange standard if it were soon, as it were, that gold coins and rupees actually circulate at a stable definite relation in value?—I should say no. I think it would make the international exchange standard more intelligible, make it look better in India if you could arrange for gold to be given for export in the same manner as it is done in other countries, if it were not confined to the German system of giving foroign exchange only. But I do not see the object of putting a gold coin into circulation or of any attempt to camouflago the international exchange system. I see quite a disadvantage if I may say quite frankly, what I have in mind. Ono Commission after another has sat and has suggested that India has got a very good currency system but one day she may have a better system; and moanwhile you adorn the existing system by allowing a certain amount of gold in circulation. India has been told that there is a better system and she has boen told that things like gold currency in circulation and a gold mint are part of that better system which has been denied her. But in my view, if you gave her the international exchange standard, then, as I have suggested, you would be giving her something bettter than a gold standard; and why should you try to dress up the better in order to make it look like the worse, which is really what you are doing, I mean, if you add gold currency which has nothing to do with the system. I assume that the Commission would be in this position, that it had come to the conclusion that whatever the advantages of the gold standard there were praotical difficulties for putting it into operation at an early date, these practical difficulties would be explained as not being obstacles deliberately put in the way of India by interested parties in the world, obstacles for preventing India from getting something that would be good for India, but obstacles of a kind that would involve the creation of a disturbance in the world which must inevitably react disastrously on India hersolf, so that it would be contrary to India's interests to attempt the transition to a gold standard. India would by trying to force the position therefore not be only causing disequilibrium throughout the world but an upset in her own prices, a very considerable fall in prices and a further impediment to the development of India industrially and economically; and that being so, she would make an attempt to get away from the intermediate stage of the gold standard and go to the final stage of the international exchange standard; and if the Commission came to that conclusion and stated that position clearly, I do not see why thev should not go on to say "as we cannot give the gold standard, and as it is not so good any how as the international exchange standard ultimately, we do not propose to add a gold mint and gold in circulation in order that a few people may like to look at it."

10,029. Perhaps the argument might be put rather more strongly in favour of such proposal as a proposal which might have a valuable influence in making it possible for the people to accept an exchange standard. There, again, the idea would be that it would inspire confidence (a confidence which is essential in order to enable the system to be

adopted and worked) in an exchange standard if the man in the street were to see, that, when he goes to a shop with ten rupees or a ten rupee gold mohur, he gets the same amount of goods for them, and it would create a more visible link between his internal country and gold in contrast to the link with foreign currency which is by no means visible?—I suppose it is ultimately a question of psychology; but it does seem to me that there is everything to be gained by being frank and honest and saying quite clearly that there is nothing in this idea of having a gold coin for its own sake; it is merely a pandering to a diseased craving for something that is of no use to anybody, and I believe that confidence is more likely to be created by frankness that by any kind of pretence.

10,030. I think I do quite follow you. You say that, in order to educate people, it is unwise to distract their attention from the real basis of their currency?—Yes, that I think puts it very well.

10,031. Before we leave the subject of the exchange standard, might I ask you to expand a little a matter to which we have twice referred, and that is the possibility that the obligation upon which the stability of the rupee under an exchange standard is based is not the obligation to buy and sell foreign currencies but a similar obligation to that now undertaken by the Bank of England to sell gold, but in the case of India to sell gold for export only. I rather gather that you have looked upon that as a practicable suggestion?—I have tried to explore it several times but I have always come up against the difficulty that it seems extraordinarily difficult to work it in practice. You undertake to give gold in exchange for internal currency but only for export. Now what is export? I referred I think last time to the possibility of export to a port in Kathiawar. That obviously is an obligation which you could not undertake because if you undertake that obligation you might as well undertake the whole obligation that was suggested in the proposals regarding the gold standard system and give gold for internal purposes, give gold bullion for any purpose. That is objected to as involving world difficulties I understand, or at any rate, that is the assumption on which we are speaking to-day.

10,032. At present?—I have not seen any practical plan for ensuring that gold shall be given only for legitimate export and not for any other purpose. I do not see how it would work. If it involves a system of license it becomes rather cumbrous. You might make the Imperial Bank itself do the export. But if I could see a practical plan worked out I should be in favour of it.

10,033. Two suggestions might be made, the first that to which you have just referred, that the Imperial Bank should itself act as the agent for the exporter in making the export; the second that it should be required that the Imperial Bank should satisfy itself that the gold was actually going to some place where it would serve as a medium for clearing an international payment and serving its purpose of supporting the exchange?—In point of fact I suppose it would be an obligation which would very rarely come into practice because even if exchange were at or near the export gold point the Imperial Bank would probably find it more convenient on every ground to sell foreign exchange and take payment in internal exchange rather than to give gold, and it would so arrange it that it was always cheaper for the man who wanted foreign exchange to buy it from the Imperial Bank in the form of foreign currency rather than in tho form of gold.

10,034. Light is thrown upon that, is it not, by the experience of countries which are actually working that system, Great Britain for example, where gold shipments are comparatively rare events?—Great Britain is rather an exceptional case. In Great Britain gold shipments are the rule rather than the exception. Well not quite that; but they are taking place all the time. I imagine in India for some time to come the actual export of gold will be a rare event. A poor monsoon would have the effect rather of reducing the net imports of gold than of leading to an actual export.

10,035. You think, in short, that the actual export would be, as you tell us, a rare event in the cycle of Indian trade?—Yes that must be so in a country which is normally a large importer of gold, which normally covers a considerable portion of its balance by means of importing gold.

10,036. Do you see any advantage in the suggestion of making a more visible and more readily understood link between the internal currency of the country and gold?—Yes I think it adds to the intelligibility and simplicity of the system.

10,037. Perhaps we can carry it no further than saying it makes it worth while to explore the practical possibility of the idea. That is rather a matter for practical banking experience?—I should be glad to explore the matter further if the Commission so desire but it is very largely a physical question for the Imperial Bank authorities whether they could do it effectively.

10,038. Let us put it, then, in this way, that you would do it if you were sure it could be done?—Yes.

10,039. (*Chairman.*) That completes the questions I wanted to ask on the assumption of an exchange standard. Now I want to turn round our point of view and assume that a gold currency is essential as a step towards the ultimate goal of an inconvertible gold currency, and my next question will be directed to that point.

10,040. (*Sir Purshotamdas Thakurdas.*) May I, Sir, ask you to follow the same practice as you followed in Delhi? This is a self-contained part of the examination and we might ask supplementary questions on that before you proceed to the second part.

10,041. (*Chairman.*) Yes, I think it is fairly self-contained. It may be more convenient to take supplementary questions step by step. The subject falls into two heads fairly well.

10,042. (*Sir Purshotamdas Thakurdas.*) I have only made a suggestion; it is for you to decide.

10,043. (*Chairman.*) I just want to see if there is any likelihood of referring backward and forward later on, in which case it would be more convenient to go straight on, but I do not think it is more convenient. Let us take supplementary questions upon the first assumption at this point. We are taking questions now with the object of clearing up any points which have still to be cleared up upon the basis of an exchange standard.

10,044. (*Sir Alexander Murray.*) What was the last point you were discussing, Sir?

10,045. (*Chairman.*) The last point of discussion was as to whether the obligation in support of an exchange standard should be to buy and sell foreign currencies or to buy and sell gold.

10,046. (*Sir Alexander Murray.*) Quite so. The one question I wish to ask arises out of a remark made by Sir Basil Blackett when he was referring to the possibility of any disaster which would divorce sterling from the gold standard that it might possibly also knock off other countries and he referred in particular to the possibility of even knocking the United States of America off the gold standard?—Yes.

10,047. Well has Sir Basil Blackett in view that something of that description might happen?—I have nothing in view but if the United States found herself involved in a war on a very big scale in which the British Empire was not participating, you might very likely have some corresponding position to that which you had towards the end of this war. It is not a thing that one can really foresee but after the experience of this last war it is equally as conceivable as the present position would have been in 1910.

10,048. (*Mr. Preston.*) With regard to the physical difficulty which you mention in connection with the shipment of gold from hero to ensure that it was meant for actual export to overseas countries for the

purpose of supporting exchange, have we not got a parallel case in view with regard to the manner in which Government deal with opium to-day. Government actually ship the opium, do they not, still?—Yes but the position is not that Government are shipping out of India a commodity for which there is normally a large demand in India in excess of the internal supply. This is a case of shipping out of India gold when the normal position of India is an annual import of a very considerable amount.

10,049. But is not the main object the Government of India have in view in regard to opium is to see that there is no chance whatever of its getting back into this country?—Yes, that is true.

10,050. What I mean is that in so far as the Imperial Bank goes or Government itself, there is no difficulty whatever. The trouble is infinitesimal, in the physical feature of actually shipping the gold putting it on board the steamer and getting a bill of lading so that the authorities could be absolutely sure that the gold being shipped is for a genuine purpose?—The word "physical" was not meant to imply the difficulty of carrying gold on board the ship.

10,051. Quite so. Then with regard to the proposed change in the note circulation, would it not be possible, when the contemplated change was made of handing it over to the Imperial Bank, that all the new notes should be made as mohur notes, and it was distinctly understood that those notes represented gold for export purposes only, and that they could be converted into gold for export purposes only. Would that not also assist?—It might possibly assist perhaps if your ten rupee note had on it not only 10 rupees but half a gold mohur.

10,052. It would be a distinctive note and Government could issue a notification to the effect that these new issue of notes, mohur notes we may call them for the time-being for the sake of argument, shall not be convertible into gold for internal purposes, but shall be convertible into gold for export purposes only?—That is the suggestion I made. Your suggestion I understand is that the note should bear on the face of it some indication of the special facility for obtaining gold for export. It is well worth exploring.

10,053. That would almost do away in a measure with any undertaking from Government to sell gold for export?—No I don't think you could put on the note some sort of claim to get gold and then take away the obligation of giving it.

10,054. No, what I mean is supposing an individual has a lakh of mohur notes; he has the right to demand a lakh of mohurs for export?—Yes, but that would not take away from the Imperial Bank the obligation of giving gold when asked for.

10,055. We will assume the case of a bank desiring to export a fixed amount of a lakh of gold. They deliver a lakh of mohur notes. There will be no object in the bank going to Government as we do in England and buying gold at the statutory price from them when we can exchange the mohur notes into its equivalent in gold?—I think I agree.

10,056. It is part of the same process, is it not?—I think so.

10,057. What would be your opinion with regard to a silver currency? Are you of opinion that at this juncture, or when the Commission definitely gives its decision, that any great disturbance would be caused in India if a suggestion were made that the rupees might be considered legal tender up to, take for argument's sake, Rs. 200 as against notes, but for a period we will say of five or ten years the rupee would be freely received by Government for rents and customs and such dues, but that as between private individuals it should be only limited legal tender for 200 rupees?—I think that change would have to be introduced rather gradually.

10,058. I was making the reservation that for Government dues and customs Government would receive it freely, but as between individuals in private transactions, there should be a limited legal tender of Rs. 200: and in making that suggestion it occured to me that that might be the first step in ultimately leading up to a limitation to be placed upon rupee transactions: it would cause little or no disturbance?—I am inclined to think it would, because considerable disturbance would be introduced by itself in that form.

10,059. You think it may be dangerous?—Yes; and I think one of its effects would undoubtedly be that it would make those people who are hoarding silver rupees demand gold for them.

10,060. Yes, but then we would have them in this position that they would not be able to demand because they would come under this legal tender of 200 rupees?—They would not have the right to get gold from Government unless you introduce the gold standard; but they would take steps to convert their hoards into gold, as they can do freely enough in the market; and they would by that process, I think, have created that sudden demand for gold on the market which it is one of the assumptions of this discussion would be so undesirable as to make the gold standard itself undesirable for the moment; I think thereby you would create that very demand, that very large and sudden demand, that you are trying to avoid.

10,061. (*Mr. Preston.*) But would it be an unmixed blessing for us to begin with if we could to tap these hoards of hidden rupees, because in the ultimate result, if we can eliminate these supposedly hidden hoards of rupees our path would be comparatively clear?

10,062. (*Chairman.*) What are you assuming in your question, Mr. Preston? Are you assuming the continuance of the exchange standard or are you working towards a full gold standard?

10,063. (*Mr. Preston.*) Continuance of the exchange standard?—Yes. I think that one of the difficulties of the situation is created by the existence of the silver rupee with unlimited legal tender privileges, and the fact that it is believed to be hoarded as a store of value in rather considerable quantities.

10,064. You see, as far as we are concerned it seems to me that we are trying to fathom the unknown in the sense of the amount of silver hoards which are out against us, and also the amount of notes which might in-come at any period and if we can convert the unknown into the known, it would make the position in every respect so much the easier. Until we can finally bring a new proposal into working, we will have to adopt some methods and my suggestion with regard to putting a limited legal tender on rupees was that if it were possible to find out really as a result of that whether there were such hoards of rupees in existence as is generally supposed to be, you might be of great help?—I think you would probably find it out; you would find it out by the large quantities of silver rupees coming in for the conversion into gold, which is what you want to avoid at the present moment. The assumption is that you want to avoid it. To answer your original question, my own feeling is that the withdrawal of the legal tender privilege of the rupee must come rather at a later stage.

10,065. (*Chairman.*) I would like to point out that it is likely that we shall get a little confused unless we remember that so far we are proceeding on the assumption that the rupee is not made convertible into gold.

10,066. (*Sir Purshotamdas Thakurdas.*) Sir Basil, under the scheme that you have just now named as the alternative scheme which has been suggested to you, against a rise in silver do you apprehend that there will be a raid for silver rupees on the treasury as soon as this sort of notification is issued, a raid for conversion of the paper, when people realise that after a few years the paper is going to be inconvertible?—I do not think there would. After all we are in a very strong position for dealing with any such raid. It would really be to our temporary advantage if there was such a raid; of course one does not want to damage the position

of the note which would be the hidden result of such a raid.

10,067. Let us look at it from this point of view, Sir Basil: I think you said at Delhi and Mr. Denning also said, that if gold was offered in exchange for rupees there will be a raid by the people to take the gold instead of silver?—Yes, because the gold standard proposal would be to some extent an announcement to the public in general that the silver rupee was being dethroned, I think those were my very words.

10,068. Now, when the silver rupee is going to be dethroned the other way, in the sense that paper currency is not going to be convertible into silver after a certain number of years, will, the same mentality of the people not say "Let us get the silver rupees whilst we can get it lest within two, or three or five years the paper in our hands becomes absolutely inconvertible and not worth anything in precious metals?"?—I do not think so.

10,069. You do not think the same mentality could work the other way about?—I do not think the anology is really a fair one. After all it is proposed, not that the note should be made inconvertible, but that it should be made convertible absolutely into foreign exchange.

10,070. Quite right; as far as the man in this country is concerned, it is inconvertible?—Yes.

10,071. His savings can only be in precious metals or in paper?—Or securities.

10,072. Even if he wants to look at precious metals, he cannot look at it?—He can use the paper to buy the precious metal at any time.

10,073. But he cannot have it in case of any emergency as a war or anything unforeseen?—He is just in the same position.

10,074. You know the mentality of the people when the war broke out?—Yes.

10,075. And you also know the state to which the Government treasury were put to in order to get the confidence of the people in paper?—As a matter of fact, I think I am right in saying that the effect of the war in disturbing confidence in the currency at the outbreak of the war was rather less than a good many people had anticipated.

10,076. But it was bad enough to upset the Government of India and make them very anxious at certain stages?—At the outbreak of the war, was it?

10,077. No, later on?—The serious point came when the Government were very anxious because of their difficulty in providing rupees with which to fulfil their obligation to give rupees for notes; the notes were in existence; they were a promise to pay rupees; and the anxiety of the Government was that they might not have rupees with which to fulfil their promise.

10,078. The desire of the Government was to avoid inconvertibility?—Yes.

10,079. I suggest that that same anxiety which made Government go several steps in order to avoid inconvertibility may again be the cause of Government's anxiety in case of a declaration that there will be inconvertible paper a few years later?—The anxiety of the Government arose from the fact that they had an absolute obligation which they were in a difficulty as to carrying out; they would have been very glad, I think, if they had been in a position at the time to make tho note inconvertible.

10,080. Because there was this obligation, you want to get the Government out of this obligation?—Yes.

10,081. What I am thinking of now is the extent to which the people will stand Government getting out of that obligation?—It would be a matter of experience spread over several years; the notes would circulate side by side, as I have suggested; it would not be a sudden withdrawal from the holder of a note of a privilege that he has got; but the gradual replacement of notes carrying that privilege by notes not carrying that privilege.

10,082. And if the inconvertible paper circulated at a discount, I take it that Government would learn by experience, and would advise some other scheme?—It would, as I said, depend to a certain extent on the general atmosphere at the time at which the thing was introduced.

10,083. The general atmosphere can only be based on the mentality of the people, as we know it and have been knowing it for the last one hundred years?—A good deal depends, I think, on the professional attitude of Indian politicians, if I may put it, towards a thing of this sort.

10,084. The professional Indian politician also can base his theories, and his maxims on what he sees feasible with the Indian public?—Yes.

10,085. And what do you think is feasible with the Indian public?—He could also base it on what he thinks is to the interest of the Indian public.

10,086. He sees that the Indian public is accustomed to precious metals: the paper currency came in after the British Government; there was no paper currency before the British Government, as far as I am aware of?—That is one of the benefits of British rule.

10,087. I am not at all challenging it; I say it is a great benefit; my point, however, is that that benefit should be allowed to take root: is it likely that you may be giving a rude shock by any scheme like this, until that benefit has taken deep root?—I do not think it would give it a rude shock. I can only express obviously an opinion on a psychological factor which almost no one is completely in a position to gauge.

10,088. You do not think what happened between 1914 and 1921 is enough to guide us as far as that experience is concerned?—What happened between 1914 and 1921 is really the basis of my confidence that this further step forward in regard to paper currency could be taken without any severe trouble.

10,089. Declaring the paper currency inconvertible?—Or substituting gradually inconvertible notes in place of the present notes; I do not like to put it in that form, a declaration that paper would be inconvertible, because that suggests going back on an obligation. What is proposed is the introduction in substitution of the old one which carried with it the privilege of conversion of a new paper currency not carrying that convertible privilege.

10,090. As far as the difference between your declaration of it and the other method which you suggest I suggest that the inference would be clear as soon as the Commission's Report is out, would it not?—I think it would mean a considerable difference to the success or otherwise of the alternative scheme in this matter if people spoke of it as a declaration that the paper currency was inconvertible or as substituting improved paper currency carrying a provision for convertibility into foreign exchange. I think the mere form of words would be all important; that is the reason why I draw attention to the phrase.

10,091. If it is so decided, I think it would be put in the form which may make it most acceptable to the people; but in fundamentals it would mean the samo thing?—No. I think that declaring paper currency inconvertible must mean taking away a privilege from the existing paper currency which it possesses; I do not propose that; I propose substituting a new paper currency.

10,092. Inconvertible for local purposes?—Yes.

10,093. I do not want to use the word, but I am sure you will not misunderstand me—I shall use the same word that you used in reply to the Chairman; is it not liable to be called camouflage?—I do not think it is camouflage at all.

10,094. It would be the same thing; the paper currency would be inconvertible locally?—The paper currency would be exactly the same as the British pound and ten-shilling note.

10,095. And would be inconvertible into any precious coin in India?—Yes.

10,096. Do you think that this would lead to encouragement of hoarding very seriously, of precious

metals, both gold and silver?—I don't think it would have any such effect. You see my trouble is this that I have got to assume that the other system, the gold standard, is not for some reason or other, capable of introduction. On that assumption I put forward an alternative proposal.

10,097. The second best?—In a way it is the second best in the sense that I believe the other would be more immediately advantageous to the people of India. But what I propose is that, owing to the difficulties that are assumed to exist in the way of introducing that intermediate stage, an endeavour should be made to go straight off to the international exchange system.

10,098. And my question is directed towards finding out whether this ideal stage, the final ideal, is likely to be injurious to the country as a whole or not if taken in one step? I am asking you these questions in that connection. I put it to you that, in view of the inclination of people towards hoarding, of which the Government and you individually tell us there is a considerable amount still left, would this not lead to more hoarding, or if you like it, the same hoarding as is going on at present?—I don't think it would make such a big contribution to the encouragement of the investment and banking habits as some other possible currency system, but I believe that it would be an improved system that would be better than the present and by being more intelligible and simple would have a tendency, though to a less extent than the gold standard to encourage investment and the banking habit.

10,099. At present people are said to be hoarding either the silver rupee or gold bullion?—Yes.

10,100. That is when they know that they can, if they have a certain amount in the post office savings bank or in one of the banks, draw the money, go next-door to the treasury and get silver rupees for it?—Yes.

10,101. With the other case, they would not be able to do that, five or seven years hence, whenever that final stage is reached. And you still think that this would be more encouragement to the people than the present system?—In practice they would be able to draw their money from the post office and go next door and get silver rupees for it for a great many years, as far as I can see.

10,102. I think you said 90 crores would last for ten years without any sort of great rush?—Yes, but after that there would still, though the currency authorities would no longer have a large surplus of rupees in stock, there would still be something like 300 crores of rupees in circulation.

10,103. But they would not be able to get it?—It would only mean that occasionally possibly there would be difficulty in obtaining silver rupees.

10,104. They would not get it for the mere asking for it. Somebody must give them silver rupees for paper currency.?—I said that the one rupee note would in practice be found to satisfy the currency requirements of the people to a sufficient extent. Then also it might be possible to issue a new rupee.

10,105. Debased?—Well, debased is again a *petitio principii*. A rupee with less silver contents. But it is not an essential part of my proposal that you should absolutely give up silver rupees altogether at that stage.

10,106. I thought you said no more rupees should be minted?—That is one of my suggestions but it is not absolutely essential that you should cease for all time to coin silver rupees.

10,107. But don't we start with this scheme as a protection against a contingency re the rise of silver prices?—Yes. Because you get that protection not as against the rupees in existence at the time when the bullion value goes above the coinage value but by the fact that when you have no longer the obligation to redeem your notes in silver, you can redeem them in one-rupee notes.

10,108. Would this scheme not lend itself to the same manipulation and management as the exchange standard scheme?—I don't think that an exchange standard scheme lends itself to manipulation or management any more than a gold standard itself. If the exchange standard as previously in force in India did lead to manipulation, which I am prepared to contest, it was because it was not fixed. There were no gold points fixed by statute,—not because it was an exchange system. The exchange standard is in existence in a great many countries and has, I think, no more led to manipulation than the gold standard with gold circulation. It is not because it is an exchange standard that it is manipulated but it had to be manipulated during the war because every country in the world found it impossible to stick to pure currency theory.

10,109. You don't think an exchange standard by itself lends itself to more manipulation and management than a pure gold standard?—No, I think not. Not unless you have the currency consisting of nothing but silver or nothing but gold. Once you have notes in circulation there must be management, whether it is an exchange standard or a gold standard.

10,110. The Commissioners who reported to the South African Government say in para. 31 (d) of their report, "conservative capital seeks markets where the prospects of stability are good and will prefer for some years to go to countries on the gold standard to countries with managed paper standards." Do you agree with that?—If I remember rightly—I have not seen that report for some time—the Commission by the words "managed paper standards" are referring to a country with a currency that is not fixed on a ratio to gold at all. If so, I entirely agree, but I cannot believe that they mean that investors would prefer a gold standard country to a gold exchange standard country because I think Dr. Vissering was one of the authors of the report and he was also one of the members of the Genoa conference which unanimously spoke in favour of the international exchange standard. So that I cannot think that he meant to say by that phrase anything which would throw doubt on the validity of an exchange standard with statutory provision for convertibility into international exchange. What he says is not of an international exchange standard but of a managed paper currency. After all the French is a managed paper currency, I think. That is what I think he meant by managed paper currency—he was writing at a time before sterling was back at par with gold. And the first question was whether South Africa should fix its new currency system in relation to a sterling standard or a gold standard. What he was speaking of was the alternative between having a standard that fluctuated with sterling and a standard that fluctuated with gold. The system that is unanimously proposed in India is a system that fluctuates with gold. I don't think anybody has suggested one that fluctuates with something that is not gold.

10,111. Was not that suggested till 1914 and was it not later regarded as the sterling exchange standard system?—But that system, as the very name implies, was then a system essentially the same as the gold exchange standard because nobody distinguished between sterling and gold.

10,112. What was called the gold exchange standard was said to be based on the gold point in 1914, very rightly?—As a matter of fact it was not the depreciation of sterling that upset the rate. It was the appreciation of silver.

10,113. Anyway the whole of that Indian system lent itself to great derangement from what was acknowledged to be pure gold exchange standard?—But so far as the actual question of the South African report is concerned, the answer is I agree if it is speaking of paper currency, not fixed to gold.

10,114. And regarding the gold exchange standard which you now advocate, you think that what happened in or after 1914, India can avoid a repetition of the thing in future?—The object of my suggestion that you should make the notes no longer

convertible into silver rupees is to prevent what happened in the war regarding it.

10,115. You think it will give definite protection?—Definite protection, I believe, if it should be adopted.

10,116. (*Sir Purshotamdas Thakurdas.*) Now regarding the export of gold, Sir Basil, what sort of arrangements do you think are possible as far as the French possessions in India are concerned and as far as Kabul?

10,117. (*Chairman.*) As far as what?

10,118. (*Sir Purshotamdas Thakurdas.*) Kabul across the border; an independent state, the Amir of which is known as His Majesty the Amir of Afghanistan.—That is the sort of difficulty I had in mind when I said that I have never seen a practicable scheme for gold for export worked out. But you might I think—I don't know whether Afghanistan is on the gold standard?

10,119. Well, it might be on any standard that is convenient to it, whenever the question comes up.—It is probably on the gold standard, most of the really backward countries are. Some provisions might be made, I suppose it would have to be laid down that the Imperial Bank authorities must be satisfied that gold was for actual export to some port in a gold standard country or something of that sort.

10,120. That would have to require consideration?—Very careful consideration.

10,121. The essential point is that the Imperial Bank authorities will have to be satisfied that the demand for gold for export is a legitimate demand for gold for export. The difficulty is to see exactly how to frame your regulations, because you want to make the power to obtain the gold a real one that can be enforced. You don't want to make it one that can be prevented from operating when it is really required.

10,122. Do you think that the liability of a scheme like this to inflation and deflation at the will of the person operating will be any the less than it has been till now?—Expansion and contraction of the currency will be absolutely automatic, exactly as it is under any gold standard or gold exchange standard system. The liability for seeing that the automatic system works will rest with the Imperial Bank and its discount policy just as it does in England with the Bank of England and its discounting policy. Currency will increase or decrease absolutely automatically at the will of the person who wants to increase or decrease, the ordinary man in the street.

10,123. Yes. I understand, Sir Basil, that you recommend this for its simplicity?—Yes.

10,124. And if the people of India did not evince that confidence in this which they had in the currency policy till now, it would surprise you?—Yes.

10,125. One more question. Do you apprehend any sort of serious misunderstanding on the part of the people when they are told that gold is available for export but is not available for internal currency?—I don't think so. It is again a question of presentation. Gold of course is not available for internal currency at present and what is proposed under this system is that there should be no change in the matter. Those who presented the position would have to be careful to explain to the people that their power to get gold which at present is absolutely unlimited in the market will not in any way be interfered with.

10,126. That is on private account?—Yes.

10,127. But I am thinking of an unfriendly critic of the Government or, if you like it, a political agitator, who can without being incorrect say that under the new scheme gold is available for export abroad but is not available to us. Don't you think it would be rather a serious aspect which may have to be taken into consideration?—That involves no change in the present system, and after all the answer is that the system is exactly the same system as is in existence in England, Germany and America.

10,128. With this additional rider that in the course of years the prospects are that people will not get silver for paper notes as at present?—As in England.

10,129. It does not matter. It may be in other countries. You would not get it in India?—If that is the way in which the question is presented the answer must be an endeavour to present the true facts in their most attractive form.

10,130. (*Sir Reginald Mant.*) Sir Basil, under the pure gold exchange standard which we have been discussing this morning, gold would be issued for export only and I take it that there would be no gold coin that would be legal tender in this country?—That was my suggestion.

10,131. You referred to the suggestion of introducing an optional gold currency as a piece of camouflage?—It seems to be suggested with that object.

10,132. Well, there is one aspect of the question that I would like to discuss with you. A good many of our witnesses have expressed a suspicion that western nations were trying to force on India a system which they were not really seriously adopting themselves. We have been told that the Genoa conference recommended the adoption of a gold exchange standard but that the western nations had not really meant to follow it out and we have had quoted to us the dictum of some American professor who said that the gold exchange standard is suitable only for dependent states. With a view to dissipating those suspicions I want to ascertain from you to what extent the systems adopted in Europe have approached to that ideal gold standard which you have been discussing. You said that in London from the 1st of January gold will be given in large quantities without any condition as to its being exported?—I think that is so, isn't it?

10,133. I understand that was the case. Well, that might be quoted in support of this view that the English system does not conform to the ideal system?—But I think that it would not be true to say that that did not conform to the Genoa ideal. The ideal of Genoa of course looked forward both to the near future and to the somewhat distant future. In the distant future I think it contemplates a sort of universal federal reserve board for the world managing the gold reserves of the world in such a way as to maintain reasonable stability in gold commodity prices preventing fluctuations in the supply and demand for gold from upsetting prices in the way that had been experienced in the last decades of the 19th and the first decades of the 20th century. The nearer ideal was that each country that could do so should get back as soon as it could to parity with gold. It should not put gold coin into circulation and should be reasonable in regard to its own reserves of gold; that it should keep its reserves or rather the reserves with which it secured the stability of its internal currency with gold rather in the form of credits at big centres like London and New York than in large quantities of locked-up gold on the ground that the gold was likely to go further if it was kept in very central reserves. And I think that is very much what has happened. Austria, Germany, Hungary, Latvia, Sweden, and so on, all the countries that are on the gold standard have been trying to economise gold generally speaking. Switzerland at one time for its own purposes did try to put gold into circulation with a view to preventing itself from having too much gold. But I think it is true that there is a gradually increasing advance towards the nearer ideals of Genoa going on in Europe at this time. Certainly none of the countries that have gone back to gold have put gold into circulation. They have all been very careful not to do so.

10,134. Your reply to some extent bears out the criticism that we have received that the western nations have not completely adopted the ideal of the Genoa conference but that they only regard it as an ideal to be worked up to gradually and if we suggest that India should go on to it straight away shall we not still leave room for these suspicions?—I don't think that this scheme we outlined this morning is any nearer the ultimate Genoa ideal than the scheme

adopted by Germany for example. It is not proposed that India should do altogether without a gold reserve and should keep her gold reserve in another country. It is proposed that she should have as against her notes gold and gold securities in exactly the same way as these other countries. There is no suggestion that India should take a step further than has been taken by those other countries.

10,135. But is it not one step further? You say that in London gold is now being given out for internal purposes, whereas under the system proposed for India gold would only be given out for export. Would not the critics freeze on to that?—There is always something for critics to freeze on to in any system, but the answer to that I tried to give was that gold is equally available for internal purposes in India as it is in London at exactly the same market prices.

10,136. You would not see any very strong objection to Government giving out bullion in India?—I think that I would be perfectly willing to make it part of the plan that the Imperial Bank had the option of giving out bullion in India if they choose to do so.

10,137. The Bank of England has an obligation, has it not?—For internal purposes, yes. Of course, the essential difference is that the proportion of the demand for the gold for non-currency purposes is infinitesimal in these countries whereas it is 99 per cent. of the demand in India.

10,138. Quite so. I see that the obligation of the Bank of England is not a practical difficulty or objection under the system there. But I am trying to devise means of meeting these criticisms which are freely made here?—As I have said, in order to establish that complete confidence that I would like to see established, I should like, if it is feasible, for a system to be adopted which does impose upon the Imperial Bank the obligation of giving gold for internal purposes. But this discussion is on the assumption that it is not feasible.

10,139. You are referring there to gold in the coined form?—Your suggestion is that you should stop at the bullion form?

10,140. Yes. I was only trying to meet the criticism?—If you give gold in bullion form I should see no objection to that if it is feasible because it is after all in accordance with my original proposal. But I am not sure that that is possible without going the whole distance, whether that does not involve the upsetting of the world markets which is the presumable objection to the introduction of the gold standard.

10,141. Do you think that there would be any larger demand from India for bullion if they obtained it through Government than if they obtained it as at present through bullion dealers. Would it have the effect of upsetting the world market?—In order to create that obligation you have your paper currency and your rupee convertible at will into gold bullion. That is the only way in which you can give that obligation. If that did not have the effect of making holders of rupees change them at once for bullion it would not of course increase the demand of gold in India.

10,142. Because they can practically convert it at will at present?—Yes.

10,143. Then with regard to coins being legal tender, what is the practice among the nations in Europe who have adopted the gold exchange system? Have they no gold legal tender? Is the sovereign not legal tender in England?—No one has any to tender.

10,144. But surely it is still legal tender?—Its legal tender character has not been taken away. I don't think that as a rule any new gold coin has been introduced as legal tender in the countries that had not got one before.

10,145. But India has had a legal tender coin, the sovereign, and they might say that here again you are taking away a privilege which is still retained by the so-called gold exchange countries?—You might leave the sovereign legal tender; of course it would be a very awkward fraction at 1s. 6d. What I was speaking of was not so much the sovereign but minting a new gold coin for circulation.

10,146. I come back to what you describe as camouflage, that is perhaps a rather unkind description of it in view of the fact to which I have drawn attention that the other countries on a gold exchange standard have retained the gold coin as legal tender, and that it might be useful in India, not merely camouflage, to have a similar arrangement here?—You might retain the legal tender character of the sovereign but if you go on to introduce a new Rs. 20 gold mohur as optional circulation, with what arguments will you convince the people concerned of the necessity of the expense involved.

10,147. It is hardly a question of convincing the people of the necessity of expense: it is rather meeting their own demand that they should have this gold coin in order as they believe to put themselves on an equality with other nations. We have had it put to us rather as a sign of political status that there should be a gold coin in circulation. It is purely a political, not an economic question: dealing with it from the practical point of view, with the political situation of India, you cannot altogether ignore that frame of mind?—You would not go further than that I suppose and say that if the people of India really want a gold coin to play with, as I have put it, and are prepared to pay the expense, let them do it but we do not pretend to regard it as an essential part of the system that we are proposing or anything more than a quite unnecessary and rather expensive embroidery of it. If it is put in that way, my objection would not be so strong as if it was put as an important part of the new currency system.

10,148. It has been frequently stated I think by previous Commissions that India ought to be allowed to have the currency that she wants, and for the same reason you might allow her to have a certain amount of gold currency if she wants it though you would regard it as useless?—If India wants a new gold currency for the right reasons, wants it in order that all her other currency should be convertible into this gold currency, she does not want a superfluous gold coin circulating here and there over and above her currency system.

10,149. The word 'want' is there used in different senses?—Yes.

10,150. Just one other question with regard to the difficulties in the way of securing that gold given for export should be exported: could you meet those difficulties by imposing on the Bank an obligation to deliver gold at a foreign centre such as London?—Yes, but that is rather a difficult obligation to impose, because if the gold is in London and you have a calamitous event as a result of which the export of gold from London is prohibited, the obligation to give gold in London does not amount to much, if it cannot be exported from London; and it does not really fulfil your purpose, unless the gold is free to be exported for currency purposes to any place where its export for currency purposes is needed.

10,151. It would not be possible for the Bank to have a gold reserve in London which would not be liable to be detained by the authorities there?—I think in practice that might work. Of course that is the position in which several countries have been during the period of the embargo on the export of gold; the South American countries and Egypt and Japan I think all had gold in London which they were allowed to move independently, in spite of, the embargo; and of course Germany for some time had gold in London which she was moving to and fro in spite of the embargo under special arrangements, but it does involve something in the nature of special arrangements made at the time. Undoubtedly the useful place for some part of the actual gold held by the Imperial Bank would be in London, though I imagine that for various reasons the greater part would be held in India. The difficulty is of course that if you want gold

for real currency purposes, in 99 cases out of a 100 exchange in London would be more useful to you than gold. It is a quicker way of getting what you want.

10,152. But you have always got that?—So that the obligation to give gold for export is only required to come into play in rather exceptional circumstances. It is really required as a sanction in order to force the Imperial Bank at all times to give foreign exchange within the gold points. It is another way of expressing the same thing.

10,153. Would not the obligation to give gold in London operate as a sanction?—It would be so long as sterling was on par with gold, so long as the export of gold from London was free.

10,154. (*Chairman.*) I have just one or two questions to ask with reference to the previous questions. The effect of a sound exchange standard is to stabilise the gold value of the rupee is it not?—Yes.

10,155. So that the rupee is always worth so much gold. You pointed out in one of your answers that it would always be open to the holder of notes to use his notes for the purchase of gold in the bazaar?—Yes.

10,156. Therefore, although legally the note is only convertible into international exchange, practically it would be possible for the holder of the note to obtain gold if he required it?—The effect of the establishment of a gold exchange standard would, of course, be to make the price of gold in the bazaar fluctuate within the same limits as the exchange.

10,157. The point which I understood you desired to bring out was that, although there was an apparent convertibility into international exchange, practically the power of the holder of the note to get gold when he wanted it internally would be the same as ever?—Yes.

10,158. And, in addition, you would stabilise the price of gold in the bazaar within narrow limits?—Yes.

10,159. I understand that, although in your proposals for a perfected exchange standard you mention the cessation of the coinage of rupees, nevertheless you would contemplate that, in some remote future, it would be necessary to provide more rupees for small change, if that could be done?—That would be a question that could well be left for the experience of the future if you introduce the new system. You would always want actually for ordinary circulation purposes a large number of coins of the value of the rupee; you could not contemplate the people of India doing without the rupee any more than the people of England doing without the shilling comfortably. But the question whether it would still be the same silver rupee is one that might be decided later.

10,160. What foreign capital needs for its encouragement, if one is contemplating investment in this country, is, I understand from your reply, stability of exchange?—I do not think I have said anything about foreign capital.

10,161. I thought you were speaking about the investment in India of capital from without?—I have not mentioned that to my knowledge; I was speaking of encouraging the habit of banking and investment by the people of India instead of hoarding.

10,162. What capital requires for its encouragement when it is contemplating investment is stability in the value of the currency in which its interest is paid, and in which it will finally be repaid?—Yes.

10,163. If that stability is equally obtained by standard A or standard B, then as regards that consideration there is nothing to choose between the two standards?—That ought to be so, but it is not merely that the currency should be stable, but that people should be equally convinced that it is.

10,164. Is there anything which promotes a conviction of stability so surely as experience of stability?—Over a longish period I should say that there is nothing, but if you want to promote confidence to a greater extent than it exists at any given time, the offer of a fully valued gold coin convertible into gold does, I think, promote confidence more quickly than the offer of an inconvertible coin fully convertible into foreign exchange.

10,165. It accelerates the process?—Yes.

10,166. Nevertheless, supposing you attain stability, you would be operating for a long period of time in order to encourage that confidence which is essential in order to produce the investment habit?—I quite agree.

10,167. Supposing the obligation to support an exchange standard is the obligation to sell gold for export; supposing that is subject to the limitation that the Bank may refuse, if it is not satisfied that the gold is required for that purpose *bonâ fide;* in order to make the system absolutely water-tight, would it then be necessary to supplement that obligation by an alternative obligation to sell foreign exchange, otherwise might it not be said by a critic that you are really putting it in the power of the Bank to suspend the operation of the machinery to maintain the exchange?—It is most important, I think, that whatever system you establish should be one where not only is there no power on the part of the authorities of the Bank to interfere with its automatic working, but that people should also be convinced that that power does not exist.

10,168. It appears to me that if the only obligation is to sell gold for export, and if you give the Bank power to refuse to sell gold because it considers that that gold is not required for export, then in the opinion of the anxious critic you may be really making your system not water-tight unless there is an alternative obligation to sell foreign currency?—Yes; I think I agree entirely in that point. One of the difficulties of the proposal for giving gold for export only is that if you want to restrict for export only you have to impose rather carefully thought out restrictions, and those restrictions may either operate or may be thought to operate so as to prevent the system from being a thorough system.

10,169. That difficulty would be met possibly by imposing the alternative obligation, if gold is refused, to sell foreign exchange?—Yes; I should see no objection to both obligations being imposed, provided that the export point can be dealt with properly.

10,170. You pointed out how an exchange system is subject to the degree of manipulation or management which may be involved in a control of the discount policy. Is the discount policy any less important as affecting the currency system of the country under these proposals which you have made for a full gold standard?—No; in both cases the maintenance of the parity of the currency with gold depends ultimately on the policy pursued by the currency authority. No currency can stand the strain with a wrong discount policy by the currency authority.

10,171. So that as regards the element of management referrable to the control of the Bank rate there is nothing to choose between the two policies?—Nothing whatever.

10,172. You were asked by Sir Reginald Mant to consider the possibility of the Central Bank, under an exchange standard in India, accepting precisely the same obligation as the Bank of England, that is, to sell gold in minimum quantities in the form of bars without regard to the purpose for which it is intended?—Yes.

10,173. That, as you pointed out, would have the effect of making the Indian notes and rupees convertible into gold bullion?—Yes.

10,174. As I understand it, in the scheme which you outline for a full gold standard, you expect the demand for the conversion of rupees to arise principally from the circumstance that it would be the definite policy that the rupee is to be limited as legal tender?—Yes.

10,175. But for that approaching dethronement of the rupee, you would expect no greater demand for conversion of the rupee than there is at present?—No; it is the threat to the rupee of dethronement involved in the policy to substitute convertibility into gold for convertibility into the silver rupee which is, I think, the main reason leading one to anticipate a

somewhat considerable demand for the conversion of rupees into gold bullion.

10,176. Supposing the Bank were to undertake the obligation to sell gold in minimum quantities in bullion without regard to the purpose, and supposing there were at the same time no intention, either existing or announced, of limiting the legal tender of the rupee, would there, in your opinion, be any probability of any great demand for such bullion against rupees? Might it not be an obligation which could be undertaken with comparative indifference?—That thought passed through my mind when Sir Reginald Mant put the question, and I was wondering whether it was not possible, on the assumption that the full gold standard proposal suggested by us is found to be difficult, to go the first stage and make the note convertible into bullion in India or outside; if it did not have the effect of causing a large demand for conversion of rupees into gold bullion there would seem to be no difficulty in introducing it.

10,177. Nevertheless, I think you may be considering that there is a danger involved of a drain on the reserves. It would be useful to try and apprehend what the degree of that danger is?—It is, of course, in essence a final announcement of the end of the rupee as the one and only metallic coin in India, leaving out the sovereign, as the major factor in the currency system of India that it has been for the last century. It is definitely moving on from the closing of the mints to silver and the over-valuing of the rupee to the substitution, for the purpose of standard of value, of gold bullion for the old favoured rupee.

10,178. Is it proper to regard it in that light? Supposing one were to say on the other hand that it is only making more visible the link between the rupee and gold on an exchange standard system?—I think the question is whether that would have the effect which I understand is the effect that causes the fear of a large demand for conversion of rupees into gold bullion. I do not see why it should.

10,179. The proposal, of course, is most clearly discussed on the assumption that there is no gold coin as legal tender or available for circulation?—Yes. If you have a gold coin at all in such circumstances you presumably have a gold coin which anybody can obtain by taking the gold to the mint and getting it converted into coin. If you have got your rupee convertible into gold bullion, and in addition you have the right to take the gold bullion to the mint and convert it into a gold coin, you have got the full gold standard, and you are back where you were. This proposal for allowing the rupee to be convertible into gold bullion for internal and external purposes, therefore, does involve that you should not have a gold coin even in optional circulation; at any rate there cannot be the right to take gold to a mint to be turned into a gold coin.

10,180. Perhaps it might be looked upon as a substitute for the existing position of the sovereign as legal tender?—It is more than a complete substitution; it is an improvement from a theoretical point of view.

10,181. It really involves at bottom, does it not, the practical consideration as to whether or not it is likely to create a large drain upon the reserves?—That is the question, yes. At first sight I do not see that it would create difficulties.

10,182. Lastly, we have not yet mentioned the question in any detail of the reserve in gold which it is necessary to keep under such an exchange standard as we have been discussing. I understand that you see no objection to keeping a portion, or the whole, of that in India?—If it is going to be used clearly and effectively at the right moment, there is no doubt that some international centre, where it is likely to be required, would be on the whole a more convenient place than India for keeping it. But subject to that qualification, there are no very great objections to keeping it in India, and there are of course historical, well-known political reasons for doing so.

10,183. It might well be weighed against any question of practical convenience?—One would hope something would happen corresponding to the case of Japan. Japan keeps a certain amount, perhaps a major porton of her gold, in Tokyo or Yokohama, but also keeps considerable amounts abroad.

10,184. It might also be a question for consideration whether it might be better to begin with rather more gold in India, and leave it to the process of time and the growth of confidence in the system to reduce tho Indian proportion?—I should be sorry to see any absolute rule laid down that under no circumstances should gold be held elsewhere than in India.

10,185. As to the proportion of gold to be kept, would it be possible to keep a larger or a smaller proportion of actual gold for securities in the reserves when it is kept under the system which we have been considering than is kept at present?—We discussed that at some length when I was before the Commission before, on the amount of the gold that ought to be kept in the gold exchange standard, international exchange standard.

10,186. If that be so—it escapes my memory for the moment—we need not cover the same ground again?—I think we agreed that theoretically you may say that you do not absolutely require gold under either the sterling exchange standard or the other system, but that you would in practice keep gold in both, and you would probably keep more under the gold exchange than under the sterling exchange standard.

(*Adjourned for lunch.*)

10,187. (*Chairman.*) Sir Basil, our questions this morning proceeded upon the basis that, for one reason or another, the scheme for a full gold standard was unattainable. I want now to ask a certain number of questions upon the contrary assumption, that an essential step towards the ultimate goal of an inconvertible note currency is a preliminary stage during which gold is available for circulation and the rupee is for a period to be made convertible into gold as a preliminary stage before the rupee is made limited legal tender; in other words, adopting as an assumption that the proposals for a gold currency sketched out in the memoranda which have been put before us are adopted. In this connection I want, in the first place, to draw your attention if I may to a body of evidence which has been developed before the Commission, the general effect of which is this, that the proposals outlined in the memoranda which you and your colleagues have submitted to us proceed by too rapid stages, and this body of evidence to which I refer suggests other proposals which are more gradual. I fear my question must be rather long. It is in substance this, to ask you to consider alternative proposals which have been put before us for a more gradual introduction of the convertibility of the rupee into gold, for a more gradual progress towards the stage at which the rupee is made limited legal tender. Let me put my question in this manner. What would your opinion be about such a more gradual policy as has been suggested to us in various forms, but of which the essentials are these, that, as a transition stage, you should establish an exchange standard on such a basis as that which we have discussed this morning; that you should cease coining rupees and promote the issue of small notes in substitution for rupees; that you should establish a Mint and coin gold brought to the Mint free of charge into a standard gold coin which will be legal tender; and then that you should wait to take any further steps towards the attainment of the stages of making the rupee convertible into gold and limiting the legal tender of the rupee until such time as (*a*) the spontaneous passage of gold into circulation through the Mint; (*b*) the increase of the note circulation by the habituation of the people to notes in proportion to rupees; (*c*) the natural absorption of rupees; and (*d*) the gradual replacement of rupees in hoards by gold, which should reduce the problem of the excess of rupees outstanding to manageable dimensions?—It is a somewhat difficult question to answer otherwise than very generally. As I understand, it is contemplated that instead of spreading over a period of ten years the transition to the full gold standard, you will spread it over an unascer-

tained and undetermined period which would probably be as much as a generation and a half, no date being specified. My first difficulty is this, that I do not regard the use of gold in circulation and the gold standard as the ultimate or final ideal. I advocate it for early introduction on the ground that there is need for some early action to give special stimulus to the investing and banking habit among Indians in place of the hoarding habit. If it is fifty years before you are going to reach this gold standard, it seems to me to be a wrong ideal to set before India. The gold standard is not in my mind the ideal; it is in my mind an early transition stage to the ideal of an international exchange standard. If you cannot introduce it at a reasonably early date, do not set it before India as an ideal at all. That would be my first answer. An exchange standard as adumbrated in the question is, I think, not very different from the kind of exchange standard that we were discussing this morning except that there is added to it some provision for a mint open to gold and gold coins in optional circulation. As I said this morning, I see very little advantage in gold coins in optional circulation. *Per se*, I regard it as a bad rather than a good ingredient in a currency system. So that I think my general answer would be that if the period is going to be very considerably delayed before you can arrive at a gold standard with gold currency in circulation, do not aim at a gold standard for India at all, but do aim at trying to jump the step of a gold standard, and go straight to the ideal of an international exchange standard.

10,188. It would seem, then, that, in your opinion, such a process as this would take so long in achieving the purpose of preparing the ground for the declaration of the obligatory convertibility of the rupee into gold coin, and the subsequent limitation of the legal tender of the rupee, that during that process the natural process of education of the people in the use of notes and so on might have achieved the purpose of introducing an inconvertible gold standard without these auxiliaries at all?—Yes; I think so; there is this difficulty; I am not at all sure that this intermediate period will in fact do anything very much to assist the ultimate introduction of gold coin and making the rupee convertible into it. Unless you very definitely set before the public the dethronement of the rupee and the substitution of the gold coin as the ideal, I am not at all sure that there will be any very large replacement of rupees in what are called hoards by gold; and even if there is some considerable replacement, so long as you are issuing rupees you will, I think, be adding new hoards of over-valued rupees; so that, you will always have at any given moment up against you a large wall of over-valued rupees as an obstacle to the immediate introduction of a gold standard. Whenever you finally come to the decision that you are going to introduce a gold standard with gold in circulation, you will have to face the necessity of making a very large demand on the world's gold reserve.

10,189. Would not such a process as that which I have attempted to sketch in this prolonged question so spread the demand upon the world gold reserves as to avoid disturbing influence in any given year?—Is it proposed that there should be meanwhile built up within the Indian paper currency reserve a very large holding of gold?

10,190. No; that is another question which I wanted to ask next?—My view is that you will not get very much progress towards the possibility of the introduction of a gold standard with gold in circulation by simply relying on the natural tendency of the people to hoard gold rather than silver, and I think that it will take so long that it will not be worth pursuing for the sake of the sole object with which I recommended it, namely, giving of a stimulus to the useful application of internal capital in India.

10,191. On the whole you would be inclined to consider that such a procedure as this would probably lead to no result?—That is rather my fear, yes.

10,192. And as regards the policy you would say that, if it is done, then it is as well that it should be done quickly?—I think it is not worth being done unless it is done quickly.

10,193. Now to turn your attention, if I may, to the further possibility to which you refer, what would your opinion be of a policy which would supplement those measures to which I have just referred by devoting a certain amount, say, for example, an amount equivalent to the interest on the present gold standard reserve, year by year to the conversion of rupees or to strengthen the reserves with a view to the conversion of rupees some day?—To the actual purchase of gold?

10,194. Yes, the purchase of gold in order to undertake the optional conversion of rupees or to strengthen the reserve for the conversion of rupees some day?—My first objection to that is: supposing you were to decide that the interest on the existing gold standard reserve, namely 40 millions sterling, the amount of which we may roughly take as 2 crores a year, were devoted to purchase of gold year by year, that would cost the budget of the Government of India something approaching two crores a year, which is far more than I contemplate would be the cost of the actual introduction of the gold standard at once. It is really comparatively expensive and is a very slow process. If that is the only contribution which is going to be made to the building up of gold reserves, it takes ten years to add another 20 crores to the total actually held in gold. Meanwhile the budget of the Government of India is losing the whole of that interest year by year. My first objection, then, is that it is very expensive and my second is that it is a very slow process. You might add to it no doubt, or you might even more usefully attempt to build up your gold reserve by another means, namely, the issue of additional paper currency as and when required hereafter against gold instead of against external securities. That of course is an uncertain process. We have added nine millions sterling to the sterling securities held in the paper currency reserve this last winter, since October; and in a year of good trade you might contemplate that you would get a fairly big addition to your gold by that means; you would not by that means actually lose any of the interest that you are at present earning. You would lose the capacity to earn interest on additional securities because you would not buy the securities, but you would not actually be charging the budget with a charge which it does not at present bear, as you would be doing if you set aside the interest on the gold standard reserve. I have this further objection, that I am very anxious to see the gold standard reserve amalgamated with the paper currency reserve as part of any process of improvement of the currency system, and this proposal hardly works in with it.

10,195. No. To amalgamate the two reserves it would be necessary to set aside arbitrarily a sum including the present interest on the gold standard reserve?—Yes; that means of course that much reduction of the present income of the Government of India.

10,196. What would be the consequence of the suggestion to which you have just referred, that all future issues of currency should be made against an actual increase in the holding of gold?—It would of course depend very much on factors which it is not possible to estimate exactly in advance, namely, the rate at which the currency expands over a period of years, the net expansion of currency, and the amount of that expansion which is permanent. If it had been started in say September 1923 it would have meant an addition of about 24 crores of gold, I think, to the gold reserves. Of course one consequence of that would have been that the amount obtainable in relief of taxation from interest on investments of the currency would have been *pro tanto* reduced, and if you started it from now and it had the same effect, it would mean that the loss of potential revenue to the budget would be the interest on that amount. At the same time I contemplate that under any system that is likely to find favour, there must be some increase of the total gold at present held, 29

crores, not perhaps a very big increase, certainly not an increase of the size of 24 crores.

10,197. Such a procedure would mean, would it not, a constant increase in the proportion of the reserve to the liabilities of the reserve?—It would mean a constant increase in the proportion of the reserve held in gold.

10,198. The proportion of the reserve beld in gold to the liabilities?—Yes.

10,199. It would mean, in short, sterilisation year by year of a certain amount of gold?—Unless you have got some definite purposes in getting your reserve together, some definite object on which you intend to use it, there is always a very great danger in going on piling up a reserve at considerable expense which it becomes more and more difficult to use as people become more and more enamoured of its size.

10,200. The definite object in this case would be to indicate, when the proper moment arrives, the obligation to convert rupees into gold?—Into gold coin.

10,201. In the meanwbile sterilising gold in the reserves for that purpose?—Yes.

10,202. Experience in the United States has shown, has it not, that it is possible to effect such a sterilisation of gold?—It is not only possible but it is the main use to which the gold of the world is put. Nearly everybody has got a large gold reserve which they do not use.

10,203. Yes, but it would be an expensive policy?—It would be an expensive policy, yes.

10,204. And obviously more expensive than the use of gold for a purpose for which it is intended?—I think so, yes. It would be a more expensive policy and the reward which you aim at would be much longer delayed. I suppose it is possible but it is rather difficult I think to say that you are building up a reserve with a view to replacing the rupees by gold coin without risking the immediate demand for conversion of rupees into gold which is the danger feared from the other policy.

10,205. It might be considered that you would also be risking, would you not, the possibility that your process of sterilisation would break down under the pressure of the public demand for the basing of a bigger structure of credit upon these increasing holdings of gold?—I think that, so far as one can see the psychology of the people of India at the present time, they would be keener on seeing the reserve grow in size than they would on its being used. That is not peculiar to the people of India.

10,206. To summarise these questions and your replies, I understand that it would be your opinion that, both for the sake of economy and for the sake of obtaining these beneficial results, whatever cost is involved in embarking upon such a policy, the longer you wait, the more you prolong the process, the more you lose?—Yes. I don't think the policy of final gold is worth having for its own sake. It is a step towards a better currency system and is desirable for the immediate purpose of encouraging and stimulating the habit of right investment and banking in India and if it is delayed beyond a certain point I think that it is hardly worth while aiming at it at all.

10,207. There are just two points of view that have been suggested to the Commission which I wanted to put to you in order to ascertain your opinions upon them. The first is: What would be your opinion of a proposal which has been made to the Commission which would go with the proposals outlined by yourself so far as this, that both notes and rupees should be made fully convertible into gold but that there should be no limit placed upon the amount for which the rupee is legal tender at all, that that further step should not be taken?—That, I think, was my proposal this morning as the step which should be taken in the near future.

10,208. Yes, but the proposal is that that should not be an object of policy at all?—You would leave rupees in the same position as the silver dollars in the United States or the silver *five-franc* pieces, a gradually decreasing element in the total medium of circulation, ultimately becoming unimportant and negligible.

10,209. The effect of this being, I may point out, to avoid the possibilities of a rush for the conversion of rupees which might result from an announcement of the policy that the rupee was, on a certain date, to cease to be legal tender to an unlimited extent?—So long as the notes are convertible into rupees there are definite disadvantages in doing anything drastic with the rupee, but once you have got your notes not convertible into rupees, then I think that the biggest risk involved in the over-valued rupee is eliminated. Because it would almost, as a matter of course, if the bullion value of the rupee became greater than its currency value, follow that you would let it go out of circulation and substitute some either less expensive coin or a note. Then, if that does not happen, you would be happy enough with the rupee continuing as unlimited legal tender.

10,210. Then, as I understand it, if the convertibility of the note into the silver rupee is terminated, you would be content, after making the rupee convertible into gold, to leave it unlimited legal tender?—Yes, with the thought at the back of my mind that, if at any time its position of unlimited legal tender became troublesome, one might then take steps to limit the legal tender.

10,211. This might have a very important effect, might it not, in limiting the magnitude of the obligations involved in making the rupee convertible into gold?—That is very nearly the same question, but not quite, as we were on this morning. It is very hard to say what would or would not have the effect of making those rupees which are kept in hoards come out suddenly and convert themselves into gold. It is anything that does have that effect that creates the difficulties of the gold standard. But I suppose it is undoubtedly true that, if you don't put in the forefront of your scheme any proposal for limiting the legal tender of the silver rupee, it will be less liable to come out than if you do put such in the forefront. But that is about as far as one can put it.

10,212. There one can always refer to the experience of to-day. As a matter of fact, the rupee does not come out now?—It does not come out, except very gradually, now.

10,213. If there are any hoards?—If there are any hoards.

10,214. If there are hoards, they are hoards which are held, although they might be converted into gold at the present moment?—There certainly are some hoards and some hoards certainly have been converted into gold, especially during last winter. As stated in my previous evidence, the extent of these hoards is a matter of considerable uncertainty.

10,215. As I understand it, if you get rid of the convertibility of the note into the rupee, you place a wholly minor emphasis upon the abolition of the unlimited right of legal tender as applied to the rupee?—It certainly diminishes the emphasis very much.

10,216. The final question in this connection, to exhaust all possible suggestions that have been made to us, is: what is your opinion of another proposal, that it is possible and right to limit the legal tender of the rupee forthwith without providing any opportunity for converting the rupee into gold? It is said that if anybody holds rupee hoards they hold them *suo periculo*, and, to put it broadly, if they are so foolish as to do so, it is at nobody's risk but their own?—I think you would risk a good many charges of bad faith if you did not give very ample notice and though the charges might be such as were capable of argument for and against, I think you would risk leaving a feeling that you had been dealing rather fast and loose with your currency, which is a very dangerous feeling for a Government to create among the people for whom it provides currency. It is true that the rupee has not got printed on it that it is redeemable in anything in the way in which a note is, but it has been issued for nearly a hundred years as unlimited legal tender—for some years the only unlimited legal tender in the country, and I think you

would have to give very ample notice before you took that unlimited legal tender away. Nor do I see that any great advantage would be gained by immediately restricting that legal tender. You could not in practice evade the necessity of redeeming rupees in some other form of currency, if you had created a large surplus of rupees in the country. You could hardly then leave the holder to carry them at his risk and say that you are not interested.

10,217. What is the specific loss which the holder of a large rupee hoard, say of Rs. 100,000, would suffer, supposing that to-morrow it was declared that the rupee was legal tender for Rs. 100 only?—It depends on the way it is worked. If the result was that only such rupees as were absolutely required for carrying on the subsidiary transactions of the country remained usefully in circulation, holders of some unknown figure between 200 and 100 crores of rupees—we ourselves would be holders of 90 crores of that—holders of some very large number of crores of rupees would have nobody on whom they could unload them in theory.

10,218. In practice would they find it any harder than they do now?—In practice either they would find it very difficult, in which case they would be forced to carry them for years, perhaps decades, at a loss of interest, or else alternatively to sell them at a discount, or else the Government would find itself forced, in spite of the absence of legal obligation, to give some other form of currency for them. And you would then be in exactly the same position as if you had not given notice before they had come to the Government. I do not think that in practice the Government could evade its obligation in a wholesale manner by giving notice to-morrow.

10,219. Might it broadly be put thus, that the holder of a large hoard of rupees, say 100,000, would have then no practical purpose for which he could use his rupees, but neither has he now?—That is so.

10,220. So that he would not be any worse off than he is now?—Well, probably in theory, but in practice I think he at present regards himself as having the right of using his rupees for the purpose for which all money exists, for exchange when required into something valuable, and if you suddenly take it away from him, he would immediately set to work to convert it into money which he could use for the purpose for which he has kept the hoard. I think it would be rather sharp practice on the part of Government.

10,221. Of course one is confronted with the difficulty of understanding for what practical purpose a large hoard of rupees is held by anybody at the present time?—It is always difficult to understand, if you are brought up otherwise, for what reason anybody keeps a large stock of coin under his dining table or wherever it may be.

10,222. In working out the practicability of the scheme contained in the memorandum relating to a gold currency which you have presented, you say that there is nothing more important for us than to clearly apprehend the additional amount of gold which would be needed for India in order to enable this policy to be put into effect. I want to be quite clear that we have apprehended precisely what your own estimate is as regards the additional amount of gold which India will need over a period in order to carry this policy out. May I just put it to you and see whether any additions or corrections are needed in the original estimate. The estimate to which I refer is contained in Mr. Denning's memorandum on a Gold Standard for India, and as I understand from that memorandum, the estimate of the additional amount required is 137·2 crores, made up in the following manner, as set out in paragraph 18 of Mr. Denning's memorandum: 137·2 crores, made up as to 110 crores of gold required for the conversion of rupee hoards, and as to 27·2 crores as the additional gold required for the reserves, making 137·2 crores in all, equivalent to about 103 million sterling. May we take it that, according to your calculations, that is the additional amount of gold which would first and last be required to carry this policy into effect?—That is an estimate which I think all those who have been concerned in producing it regard as an outside maximum of the amount of gold which would be needed for the purpose.

10,223. Just to complete the account of the estimates formed, we understand that it would be required, as to 15 million sterling of the 103 million sterling, at the inception of the measures proposed?—Yes.

10,224. As to a further 35 millions within a year, and as to the remaining 53 millions over a period of 10 years; 15 millions at the inception, 35 millions within a year, and the balance of 53 millions, making 103 million sterling in all, within a period of 10 years?—Yes; naturally that last estimate does not profess to be anything more than a very rough shot. You have got a psychological factor, as the most important factor determining the pace at which the demand would come, and it is one which one cannot estimate. But the other figure, 103 millions within 10 years, may be regarded as an estimate of the maximum amount and for that we are willing to take real responsibility.

10,225. Recognising that it is the best shot that can be made?—It is meant to be a shot at the maximum, not at the probable figure.

10,226. I understand further that this is a maximum figure which you prudently put in the forefront as the greatest possible requirement?—Yes.

10,227. Could you clear our minds by referring to those factors which might tend to reduce that figure?—I have made one suggestion in my memorandum which would reduce slightly the amount of gold to be required in the form of a currency reserve. That is however comparatively unimportant. Really my figure in arriving at this estimate is the total of the rupees now in circulation or in hoards which would come out and be melted down. On that, the note on the amount of rupees outstanding by Mr. McWatters, dated the 30th November, 1925, contains a summary of all the information in our possession. The two important figures are, what is the amount of rupees still outstanding, not melted, and the second one is, what is the amount of rupees that will be required for the purposes of normal circulation in any circumstances. A low estimate of the latter figure is 150 crores, Rs. 5 a head of the population. A high estimate of the former figure is between Rs. 350 and 400 crores. Taking the probable figures, the amount still outstanding, not required for circulation, almost certainly does not exceed Rs. 200 crores and probably does not amount to more than 150 crores. This figure is based on the estimate that it is 200 crores.

10,228. The amount still outstanding, not required for circulation, is probably round about Rs. 300 and 350 crores?—As a maximum it is 200.

10,229. Then the estimate of the amount of rupees which might be presented for conversion, 110 crores, does not seem unduly small?—90 crores of those 200 crores are in our possession. 110 crores of that 200 crores are not in our possession; that leaves 110 crores to be presented. 110 crores is the amount not in the possession of the Government at present of those 200 crores that would on a maximum estimate be presented.

10,230. If 110 crores is the maximum which might be presented for conversion, a figure which you prudently take as the basis of your calculation, is it possible to estimate a minimum?—I think the only minimum is *nil;* one does not know what will be presented. There is no minimum that one can put down. It is possible that theoretically 100 crores more have been melted down than we have allowed for, and it is possible that a considerably larger circulation than 150 crores is required by the population. In that case the only hoard in existence will be the Government of India's own hoard of 90 crores.

10,231. I understand, however, it is your opinion that it would not be prudent to undertake the obligation of the conversion of rupees immediately without having made provision in advance for being

able to convert the maximum, which is 110 crores?—It would seem to be a mistake to enter on this very big operation unless you felt certain that you would carry it through to a finish. It was however for that reason that I suggested in my previous evidence that before embarking on the obligation, India ought to have an understanding with the Bank of England and the Federal Reserve Bank of New York to enable her to be assured of getting all the gold required. She has under her own control 29 crores of gold in the reserves and the possibility of converting 80 crores, taking these figures of sterling securities, into gold. But once those run out, she is entirely dependent on the power of borrowing outside.

10,232. You will forgive me for returning with a certain amount of reiteration to this question, but I imagine it is a question upon which it is impossible to be too clear for the purpose of our deliberations. Let us, therefore, be perfectly clear that, in your opinion, although this be a maximum figure of 110 crores that might be presented for conversion, it would be imprudent to embark upon a policy which would involve the undertaking of a legal liability to convert rupees into gold without seeing your way to being able to convert the maximum amount of rupees which might be presented?—The maximum?

10,233. This maximum of 110 crores?—Yes, I think it would be unsafe to embark on the operation unless you saw ahead the possibility of dealing with the maximum figure you regard as within sight.

10,234. Referring to the point upon which you last touched, it is said by Mr. Denning in his memorandum at the end of paragraph 18; "it would probably be necessary to enter into arrangements with the Bank of England and the Federal Reserve Bank of the United States of America, in order to reduce the disturbances in world prices to a minimum." I remember on our previous discussion asking you a general question as to what was the nature of the arrangements which you had in contemplation. I think upon that occasion you felt some difficulty in saying in anticipation what the arrangements which you proposed should be. I do not know whether it is possible to cast any further light, for the information of the Commission, upon what the general outlines of any proposal which you would contemplate making with the Bank of England and the Federal Reserve Bank would be in order to reduce the disturbance in world prices?—The necessity for some kind of negotiations arises in the first place because India wishes to convert a very large amount of sterling securities into gold; that means a drain on the Bank of England gold reserves and in view of the old relations between the two countries and the services which have been rendered to the finances of India by the City of London, it will be rather imprudent, to put it at its lowest, to attempt to convert 80 crores of sterling securities into gold without some discussion with the Bank of England as to its effects on the British market and the reactions on India which might be serious. India does not want to destroy her credit in the London market by doing something of this sort arbitrarily and even it she did, it would not be in her interest to do so, because the effect must necessarily be either to drive England off the gold standard or to cause an appreciation in gold unless the Bank of England can turn round quickly and make some arrangement with America. Moreover, the Government of India has not in sight a sufficient amount of gold even after it has sold all those securities to carry the thing through to completion. It must, therefore, contemplate as a possibility that, in order to obtain the maximum amount of gold required, it will require some temporary external credits which must inevitably be either in America or in England. If it is going to hope for any reasonable success, it must consult the Bank of England and the United States Federal Reserve Board in advance before it embarks on the scheme as a whole. Then, of course, there is the third point, namely, the sale of silver.

10,235. Granting the obtaining of those credit of course it is not a matter of right?—Not a matt of right. There is no reason why either America England should lend anything to India, and of cour there are maturing debts of various kin coming on. But still the last thing that shoul he risked by India will be to antagonise the London market so that she would be neither able to borrow the extra money to carry this scheme through if she does require to borrow nor be able to refund or reborrow the amount required to meet the various existing obligations that will come in the course of payment. Obviously it will be very disadvantageous to everybody if that sort of thing be done by India. Then there is the third point, that the proposal involves the sale of 600 or 700 million ozs. of silver at the maximum which very much interests the money markets of the world and the countries with a silver standard and silver producing countries. What I had in mind was that before India could embark on the scheme and before she proceeded to liquidate her sterling securities, she should enter into counsel either with the Bank of England or the Federal Reserve Board or both so as to fortify in advance with some arrangement for a credit, not necessarily to be drawn upon, both with the Bank of England and still more important with the Federal Reserve Bank of New York on which she would draw as and when she requires additional gold over and above her available reserves. She would draw on one or the other according as the Bank of England or the Federal Reserve Bank were willing to encourage the outflow of gold.

10,236. That is, in substance, drawing on the security of her silver?—It would really be on the security of the silver. But it would be a temporary advance as I said. It would not be a permanent addition to her debt but a temporary one pending the time when she would be able to liquidate her silver and buy gold.

10,237. The temporary advance being liquidated by the sale of silver?—One feels that a credit of something like 150 million dollars in New York with 80 crores of gold securities in London would be a useful thing to have before you decide to embark on the scheme as a whole. It does not at all follow that you would necessarily draw the whole of that credit. Of course the amount of gold required might prove to be less; but it is probable that you would draw some of it from New York in order to equalise the drain of gold from New York to India rather than make it all come from London.

10,238. Then, as I understand it, the nature of the arrangement which you would make is complex. There is, first of all, an arrangement which would seem to consist rather in the nature of an explanation of the policy of India in order to prepare the minds of the gold centres of the world with the circumstance that India was going to sell a certain amount of securities and draw her gold?—Yes.

10,239. Secondly, there would be a frank explanation between the authorities in order to avoid any difficulties in the renewal of India's maturing liabilities?—I only mentioned the existence of those as being a reason why you should not go ahead with this plan without consultation.

10,240. There is a possibility of trouble if the authorities were to get at arm's length?—Yes.

10,241. Thirdly, and possibly the most important consideration in this connection, is the necessity for fresh credits to cover the balance, which would be frankly a matter which the money markets of the world, represented by the various central Banks, might be willing to grant or refuse to grant?—Yes.

10.242. It would be necessary to obtain their cooperation in order to secure the fulfilment of the policy as regards fresh credits?—Certainly.

10,243. The fresh credits being credits which would he in part or in whole liquidated by the realisation of the sale of India's silver?—Yes.

10,244. The only point which is perfectly clear in this connection is that the first of the two are matters which India may expect to carry out as of right; but the second, the obtaining of fresh credits for the fulfilment of any such policy, is a matter in which India, in common with any other nation, has got no position to claim the credits as of right?—India has an absolute right to do what she likes with her own securities. It may be unwise to do a particular thing because the results may be very damaging to herself; but, as a matter of right, India has the right to sell those securities.

10,245. As regards the third heading, the heading of obtaining fresh credits in order to cover the demands necessary for the fulfilment of the policy, that is essentially a matter of negotiation, in regard to which there are equal rights on either side, debtor and creditor: they go together?—The borrower has no right to borrow; but if the creditor chooses to lend, it may suit the borrower to borrow and *vice versa*.

10,246. The next question, which I remember asking you before, is one of primary importance, and it may not be wholly irrelevant or impertinent to consider it just once more, and that is the question: What consideration would India carry in her hand in order to induce those who have gold in the world's money markets, in the gold centres of the world, to agree to granting fresh credits which would have the result of the withdrawal of gold from those centres in India?—Well, to begin with, the City of London prides itself on always carrying out its obligations, of being able to stand against any difficulties. Now we say that the time has come when we want no longer to hold this sum now held in the London money market and we want to turn it, or some of it, into gold. You have been our bankers for many years; now are you going to turn round and say if we ask for gold you will refuse it? I think that India has the right to look for goodwill at any rate to the City of London in enabling her to carry out this operation. But the claim of India is very much stronger than that. It is that India would be able to say, very rightly, that the economic development of India is a world interest of very great importance. By helping us now you could greatly speed up the economic development of India; assist her in her progress economically, not only in a narrower sphere of gold, by being able eventually to secure an economy of gold, but also, by getting India as a partner in the world's trade, in the world's money markets. That is an argument directed to the world in general. It is a particularly strong argument, I think, for England, for I believe that the economic interests of England and India are identical, that England hardly has any greater economic interests than the economic progress and prosperity of India, and if England and the British Empire and the United States can be convinced that, taking a long view, this operation will conduce to accelerate very largely the progress of India's economic prosperity, then I think that that is an argument which sound people in those centres would listen to and if they were convinced act upon very readily.

10,247. If it is not inappropriate to say so, I have finished my questions where I began. I have just two questions on which I should like to ask for your opinion to clear up matters in regard to evidence that has been given to the Commission. It has frequently been suggested to us in evidence that the introduction of the availability of gold for currency would so increase confidence that all the gold needed for the carrying of this policy into effect would be furnished by gold hoardings already in the country. Do you think that that is a possible consideration?—I am afraid, optimist though I am, I regard that as almost incredible. I do believe that the effect of introducing a gold currency will after a time be to reduce very largely the amount of gold hoarded in India, but I am afraid its first effect will be very largely to increase that amount.

10,248. So that the practical outlook is to contemplate the necessity of providing an additional output of gold, in the first place at any rate?—At any rate I think that whatever view you take of the probabilities it is important that you should not embark on this operation without having regard to the possibility; and the possibility certainly is that you will need this large amount of gold. At the same time I regard these figures as maxima; they would not in all probability be approached even nearly.

10,249. It has been frequently put to us in evidence, if I may say so somewhat vaguely, that India, having a trade balance which is habitually in her favour, can get all the gold needed for the carrying into effect of this policy without more ado than by natural processes and without expense. Do you find anything intelligible in that view?—India is of course taking a very large amount of gold. Imports of gold from other countries reach her at present in payment of her trade balance. I do not quite understand the meaning of the claim that she could get it all by merely using her trade balance. I believe she could if she were prepared temporarily to borrow but I do not think that you could embark on this proposal without running very great risk that you would so turn the balance of trade against you that you would not be able to complete it within the time proposed or at all unless you have some arrangement for borrowing abroad temporarily.

10,250. I would like your opinion on a question, the answer to which is a foregone conclusion in view of your last answer; but nevertheless it might be useful to have the reply in black and white in view of the evidence tendered to us. Are the present reserves sufficient to enable the full obligation to convert rupees into gold to be undertaken forthwith?—I think the answer is yes or very nearly so; except for the fact that there are 90 crores in the existing reserve of silver which you cannot liquidate rapidly, and you must contemplate having to borrow in order to liquidate that silver and to liquidate the other silver which you would get from the public when you offer gold in place of it, they are probably sufficient, the actual amount is enough but it is not in the right form.

10,251. Hence your final calculation that the ultimate cost of your scheme would be practically negligible, although there would be a cost during the transition stage?—Yes, that is partly, of course, based on my view that the existing reserves are rather more than sufficient for the existing sterling exchange standard system. You start with a surplus.

10,252. I understand it is your opinion that the ultimate reserve which you would have to hold under the scheme which you have outlined would need to have less real assets than there are in the reserves at the present time?—Yes.

10,253. That, as I understand it, is not because the liabilities would be less under that system, but because the assets are at present in excess of what they need be?—Both. Under the gold standard system I think the liabilities of the reserves would be less owing to the fact that you would have replaced the rupees in hoards by fully valued gold; but the main point is undoubtedly that I think the existing reserves are somewhat unnecessarily high.

10,254. To the extent outlined in your proposals in the final memorandum on the Indian Currency system?—Yes, it is indicated there.

10,255. (*Sir Maneckji Dadabhoy.*) Sir Basil, your conclusion, then, is that we should not undertake the obligation of conversion till we are absolutely satisfied that we are prepared to meet the full demand of 110 crores?—103 million of sterling, yes.

10,256. (*Chairman.*) 137 crores.

10,257. (*Sir Maneckji Dadabhoy.*) Yes, 137 crores. And I understand you to say that you are very doubtful that we shall be in a position to obtain this amount of gold. Have you any reason to suspect that the attitude of the United States Federal Board will be hostile to India?—I do not think I expressed

the view that it was doubtful. What I expressed was that it was a formidable proposal. I think I did express when I was speaking in evidence here before the opinion that while the expert authorities both in London and America would probably agree fairly readily that in theory this amount of gold could easily be spared so far as the gold was concerned, they would feel at the same time that the task of persuading their general public that the amount could be spared without damage to the currency system would be a very formidable one.

10,258. Is not America already a little bit embarrassed by her hoards of gold?—Well, there is more than one party. There is a party that holds she has too much gold, and there is a party that thinks nobody can have too much gold; it is the same here.

10,259. But as you stated that the economic development of India is a world question more or less, the whole world is interested in it; is not America likely to view the question from a sympathetic point of view?—I think that argument would meet with a sympathetic response in many quarters, but the silver position has to be considered too.

10,260. You stated that our demand would probably antagonise the London market?—No. But I say that certainly the man in the street would be rather alarmed.

10,261. The man in the street, but the financial magnates and others would take a different point of view, and look upon it as a whole Empire question?—Many financial magnates are also in this connection men in the street. I was thinking of the authorities in the Bank of England, and I think they would recognise the true position.

10,262. What are your main difficulties in the matter of acquiring credit abroad? Our financial position in this country?—It is not that we could not quite easily borrow 30 or 40 million sterling at the present time or borrow the equivalent in America for the purpose of expenditure on imports into India other than gold but I think that obviously before they agree to any such loan the Bank of England authorities will have to consider what would be the effect of that on the market, whether they could lend that amount of gold; it is the nature, the purpose for which the loan is required that creates the difficulty.

10,263. It is the nature of the demand that creates the difficulty?—It is the purpose for which the credit is wanted that causes the difficulty.

10,264. But all the civilised countries now-a-days have adopted a gold standard and I suppose if they find that India wants also to adopt a gold standard, it would be a legitimate aspiration. Why should that purpose be misunderstood or misconstrued in other parts of the world?—You say all the civilised countries of the world have adopted a gold standard. All of them tend very largely, as I was saying this morning, towards the adoption of an international exchange standard with gold as the standard of value but not as the medium of circulation. The reason there would be objection, one could anticipate objection being made to a loan to India for the purpose of buying gold, would be that it would seem to the lenders that the loan was going to be taken out simply in gold, which was going to be buried, if one may put it so, in India, not going to be available for the support of the world gold standard in future but going simply, after having been dug up at considerable expense in South Africa, to disappear again into the ground in India.

10,265. Then as regards our internal resources, Sir Basil, I fear you are a little bit too nervous. You will admit this much. There are large hoards of bullion in the country?—Yes.

10,266. Are you in a position to estimate them?—No; I wish I was.

10,267. Now once the idea prevails in the country that gold could be easily acquired for silver, would not these large quantities of hidden bullion come out very readily?—I think that the holders of those large quantities of gold bullion would require a year or two or 3 or 4 years of ocular demonstration of the of the capacity of the authorities to give gold for silver at will before they would allow any important quantity of gold to come out of that hoard. If that be so the whole of the demand would come in the earlier part and would get no assistance from gold coming out of the gold hoards in the country.

10,268. I quite understand your point of view; but will the demand in the first two or three years be so egregiously large that it would simply embarrass our position so that we wouldn't be able temporarily to meet it from the gold in our possession?—My assumption is that you need 103 million sterling extra gold within a short period.

10,269. What period, how many years?—That is one of the difficulties of the case. It may be 2 or 3 years. We have assumed that the whole would not come in within less than 10 years, but the greater part would come fairly soon. You need 103 million extra gold and the reserves we have got for foreign exchange purposes are not quite adequate to supply that. That is assuming of course the normal import into India of gold that already goes on; this is a condition of it; it is a very heavy temporary drain on the foreign exchange, the external exchange reserves of India.

10,270. You are aware, Sir Basil, in 1924 79 crores of rupees worth of gold was imported into India?—Yes.

10,271. What has become of that huge quantity of gold?—I think quite a considerable part of it has probably been used for releasing rupees from hoards and replacing them by gold; there is some evidence of that in the statistical record regarding rupees. Some of the people who have hitherto hoarded rupees finding gold so cheap paid out their rupees and took in gold in its place. As far as the rest, it is the same question as before, "Where does the gold that comes to India go?" It spreads all over the country in small quantities, in the form of bangles and ornaments and small bars and so on, and it is very hard to say to what extent it is in ornaments or to what extent it is hoarded up, or to what extent it is simply the equivalent of money in the pocket.

10,272. As you know, during the last ten years an enormous quantity of gold has been imported into India and that must exist in some shape or other, in the shape of bullion or in the shape of ornaments? It must exist?—Except in so far as it has crossed the land frontiers, which is not a very large amount.

10,273. I do not think that any large amount has crossed the land frontiers: so that, if all that gold exists, and if the idea went round immediately that gold was available freely in the country, do you not think people will not only cease hoarding of gold but they will also freely bring out the gold they have and put it to more useful purposes instead of hoarding it and keeping it stagnant without earning any money on it? Will they not say "we will put this in securities and get something on it"?—If you could persuade one or two of the very large holders, whose names are probably in our minds, to pay out a large amount of gold and take in exchange gold bonds, then you would enormously simplify this problem; but I agree that the ultimate effect on these people will be to make them bring out their gold and use it for investments. It will not however happen in the first year or two, and it is the first year or two that will present us the most difficulty.

10,274. You are aware that there is an apprehension, rightly or wrongly, in the minds of the uneducated people, that whatever gold can be imported by outside agency, apart from that, there is a tendency on the part of the Governments of European countries not to allow India to obtain gold, and the very existence of that idea strengthens the mischief in this way?—I think you are putting in one form what I have said in another, that I believe that the introduction of a gold currency would increase the confidence of the people and lead to investment.

10,275. (*Sir Reginald Mant.*) Sir Basil, there is only one point that I want to discuss with you in this connection: the main obstacle to the immediate introduction of a gold currency is the surplus stock of silver rupees in the Government treasuries and in hoards?—Yes.

10,276. The Chairman suggested to you that in lieu of the scheme propounded in Mr. Denning's memorandum for selling off that stock of rupees, it might be advisable, as I understood to postpone the operation and trust to the absorption of rupees for currency purposes: and I understood you to say, correct me if I am wrong, that you thought that it would be more economical to sell off the silver than to wait for the absorption of the rupees?—If I may summarise what I think I said, it was that the object of the introduction of the gold standard with a gold currency was to secure confidence and increase the banking and investment habits of the people quickly. It is hardly worth while doing that, if it is postponed for a very long time, particularly in view of the fact that the currency system which you are suggesting, namely, a gold standard, is not the best possible currency system but only a step towards it. From the point of view of the true economic interests of India therefore it is worth while incurring the capital loss involved in selling the rupees now rather than waiting for the future. It is also, I think, more economical because, as worked out in my plan here, the actual cost to the budget of the Government of India is somewhere in the neighbourhood of a crore at the most, whereas the proposal for accumulating interest on the gold standard reserve in gold year by year itself costs something like two or two and a half crores, a year.

10,277. You do not mean that, looking at the problem solely as one of the disposing of the surplus silver, it would be cheaper to sell it off than to hold it?—No, that was not the point: that you simply must sell the silver, but that you must incur the loss which is involved in having the surplus silver on your hands.

10,278. I have been looking at this table of absorption of currency (Appendix III to the Historical Memorandum:) and I find that in the ten years beginning with 1899-1900 (leaving out the first year because it was a year of reaction from a famine year) up to 1908-09, the average absorption was a little over 5½ crores and in the next five years immediately preceding the war the average absorption was about 8¾ crores. Then we come to the war; there was a very large absorption of rupees during the war and immediately after it, and then a reaction. But taking the average of the last eleven years in that table there was an average absorption of over ten crores a year. That seems to show that there is a steady increase in the demand for rupees in India?—Yes; I think it is rather advisable in considering these tables to ignore the war years almost entirely, except for one purpose, and that is, to remember that they saw a very considerable rise of prices and an enormous issue of rupees which has created a very large surplus of rupees as compared with the requirements temporarily, which has not yet been worked off. There is undoubtedly a regular demand for rupees year by year; but it is rather striking that if you take last year, 1924-25, which was a year of very active winter trade, this absorption was only 3·65 crores.

10,279. But at the same time there was a very large absorption of gold?—Yes; that is of course the position; if there is a large absorption of gold the pace at which the rupees will move off will be a very slow one.

10,280. India has been rather starved of gold, and I think we may treat it as abnormal?—Yes.

10,281. And we may expect a resumption of the normal demand for rupees?—Yes; I think Mr. Denning has somewhere assumed something like eight or nine crores a year as the average absorption.

10,282. That is a moderate estimate almost, judging from this table: it might run to 10 crores or considerably in excess of 10 crores? Looking at the problem simply from the question of the most economical way of disposing your silver, would you not agree that it would be more economical to hold it until it was required for currency purposes than to sell it, putting on one side for the moment your argument that it would be desirable to convert it into gold?—Quite apart from the question of the introduction of the gold standard, whether it would be desirable or not to sell some of the silver in the reserve: That is a problem that I have had in my mind ever since I came out to India, as to whether we were not rather wasting money in holding this very large stock of rupees with no prospect of their being required within a reasonable period, and I think the only reason why I have not made any suggestion for dealing with them was because one felt that there was a general currency inquiry coming on and the question would have to be taken up then; but I am inclined to think that it would be economical now to sell a small portion of those rupees and take the loss involved and use the proceeds for investment with the result that such investment would more than make up for the loss incurred in selling the rupees.

10,283. You have not worked that out mathematically?—No; not exactly; but I have worked it out in various ways; your difficulty would be what price you would buy silver at when you want to issue it later. If you estimate that you can buy silver later at the price that you sell it for now, then it more than pays you to sell. But the question as to how much higher price you have to pay when you do buy is something in the nature of a speculation.

10,284. If you started selling silver, you would depress the market and when you came in again it would go up?—Yes, that is our difficulty.

10,285. So on the whole I gather you do not hold that it would be economical or rather it would be doubtful economy looking at the question as it stands at the present moment, not to sell off and trust to absorption?—It is a matter on which you have got to take so many views; the future price of silver, the effect of sale of silver now, the capital loss that you incur by selling the surplus stock of rupees and various other things. I think my own view is supposing nothing else were being done by this Currency Commission except continue the pre-war system, I would then take up the question of selling off some of the surplus silver, and I think I should probably recommend their sale.

10,286. At present you treat it as an open one?—Yes.

10,287. (*Sir Purshotamdas Thakurdas.*) I take it, Sir Basil, that you would like this Commission to recommend this scheme for improvement of the existing currency policy as one which will go through successfully and which has the least risk of breaking anywhere midway?—Yes.

10,288. To that end, you suggest that arrangements should be in view for getting the amount of gold which may be considered necessary in order to see the scheme well started?—Yes.

10,289. And you suggest that the maximum quantity of gold that should be available in case of need is 103 million pounds sterling?—Additional gold, yes.

10,290. That is the figure in Mr. Denning's memorandum and you just now said "additional gold." In paragraph 12 of Mr. Denning's memorandum, I see this: "The bullion merchant, however, would obtain his gold from Government instead of importing it." Does he not include the requirement of the private importer in the 103 million gold?—No. Well, the answer is perhaps not a simple "no." 103 million pounds gold represents the amount of gold which would be required to be imported into India over and above what is at present being imported for the purpose of converting rupees hoarded by the Government or by other people.

10,291. By the Government?—90 crores into gold.

10,292. Oh, the 90 crores conversion is also covered by this 103 million?—In so far as it is required. We

don't propose to convert the whole of it into gold. Some of it into gold securities.

10,293. May I get a little more clear about that?—137½ crores of gold is the amount that is required to bring up the gold reserves of the currency at the end of the period to the minimum figure estimated to be safe and in addition to provide what we expect to go into circulation in place of rupees and the gold that we expect to go into hoards in place of rupees in hoards.

10,294. I want to understand that. I understood that 103 million gold or the equivalent of 137½ crores rupees worth of gold was required, and you add 110 crores of rupees which you expected to come out of the hoards to be tendered to the treasury for conversion into gold?—A hundred crores to come out of hoards and ten crores to go into circulation.

10,295. That is in paragraph 18 of Mr. Denning's note?—And 27·2 crores as an additional reserve.

10,296. Yes. What Mr. Denning calls "the addition to the amount of gold at present held in the paper currency reserve"?—Yes.

10,297. You just now, I understood, said that that also included conversion of 90 crores in the Government treasury?—In so far as the silver to be sold includes the 90 crores of silver in the Government treasuries. Our estimates is that that may be worth 45 crores of gold and that it would therefore more than pay for the 27 crores of additional gold which we require. I want 27·2 crores out of that 90 crores. Instead of holding silver in future one would hold gold in the reserve.

10,298. Would you mind explaining how you will be able to buy the gold? I am thinking of the quantity of gold to be imported into India?—May I repeat the answer then. You put it perfectly correctly just now. What is required is 137·2 crores of additional gold, of which 100 crores is to replace silver in hoards, 10 crores is to replace silver rupees in circulation and 27·2 crores is to add to the gold reserve in the paper currency.

10,299. The 90 crores is outside and if it is decided that the 90 crores should not be at present converted into anything but should be retained as rupees, they would not be included in this?—That does not alter the amount of gold you require. It affects the way in which you purchase.

10,300. You expect then only 10 crores of rupees to be converted from rupees in circulation?—That is the estimate, yes.

10,301. And you are counting on 100 crores of rupees to be offered to the treasury for conversion out of rupees in hoards?—Yes.

10,302. The whole figure, therefore, or more accurately, the major part of the figure therefore consist of what I hope you will agree is a mere guess as to what is the amount of rupees in hoards?—Yes. We have frankly said that we are not in a position to guess what the amount is. We are in a position to give some statistics to show what its maximum figure is and this figure is in our view the maximum figure.

10,303. All these figures, I take it, are maximum figures—outside maxima?—Yes.

10,304. Now, if I remember it correctly, Sir Basil, Mr. Denning said in one part of his memorandum, in paragraph 12 of his memorandum, that it would be possible by special arrangement with Indian States to postpone the conversion of their rupees in hoards, if any?—Yes.

10,305. So, in spite of this possibility, you think that 100 crores will have to be converted?—No. If that possibility materialises, I think it would reduce the 100 crores.

10,306. And your assumption is that the States hold the majority of the rupees in hoards, or is it the masses that hold the bulk of the hoards?—I believe that there are some very big hoards mostly in the Indian States, which consist of British India rupees, but that probably the majority of the rupees that we are talking of, if they exist at all, are the sum of a large number of smaller hoards.

10,307. Smaller hoards with the masses?—With the masses, yes; including hoards of 80 or 100 lakhs with individual banias and things of that sort.

10,308. A hundred lakhs, that is a crore, with some private individuals?—I heard of one the other day; I don't know if it is true.

10,309. The estimate of 100 crores of rupees being in hoards is of course only justified by the one that you give of Rs. 5 per head of the population being the rupee currency in circulation?—Yes.

10,310. In view of the various special circumstances regarding the people here, namely, want of education, some of the climatic handicaps, the long distances, and the want of facilities for encashment, do you think Rs. 5 is not too much on the low side?—It is meant to be a low figure.

10,311. Oh, you purposely kept it a low figure. Then it is possible that these 100 crores may turn out to be an extravagant over-estimate?—Certainly.

10,312. Now, Mr. Denning's scheme for a gold standard is divided into 4 stages?—Yes.

10,313. Do you think provision for all this quantity of gold should be made before a start is made or do you think that it should be made as we pass on from one stage to the other?—Your difficulty is the same difficulty as what we were speaking of a little earlier, that it is impossible to foresee at all accurately what would be the effect upon those who are at present holding their store of value in the form of overvalued silver rupees of an announcement that in future the real store of value in India was going to be gold; and so long as that is the case you cannot say whether the whole of this demand for gold may not come very quickly indeed.

10,314. Sir Basil, but that stage does not come on until the very final stage?—No, but I assume that, if the Report of the Commission took the form of recommending that this proposal should be brought into operation in four stages, and stage 1 was introduced, intended to lead to stage 2, and 2 to 3, and 3 to 4, and if people took fright and unloaded their rupees at the first stage, you may have your full demand at once—I don't say you would have it, but you have to protect yourself against a risk of this character.

10,315. But, as you yourself suggest, any such announcement would have to carry with it a sufficiently long notice?—Oh, I was speaking then of the taking away of the unlimited legal tender character of the rupee. You would not announce any date for that. All that would happen would be that the Government would presumably accept the Commission's Report suggesting an ultimate stage possibly ten years hence for the disappearance of the legal tender of the silver rupee.

10,316. Exactly. And in acceptance of that, Government would perhaps think it necessary as you said in reply to the Chairman, to see that a sufficiently long notice is given of its intention when this date is fixed. Do you think that, in spite of this, the people of India would rush for gold at the very start?—I don't profess to know. But I think you have got to prepare for their doing so.

10,317. Even at the first stage?—Well, you need not necessarily at the first stage have actually in hand or in sight the whole of the 100 crores, but you do want to know that you can put your hand on it before the end of the stage.

10,318. Or do you want to know beforehand that you have got the goodwill of America or England in this matter. Would not that be enough? I mean if you did that by making sure that they would not be opposed to it, if you had an agreement in principle that they would assist you. I thought if you had general sympathy from them to this?—But I should be happier in dealing with a banker to be dealing with something more than an agreement in principle.

10,319. Even though you felt that the agreement might cost a good deal?—I don't think the agreement would be necessarily costly. I am much more concerned about the difficulty of getting an agreement than with the cost.

10,320. I thought you were going to tell us something regarding this in Mr. Denning's memorandum, in paragraph 12, where he says "the bullion merchant, however, would obtain his gold from Government instead of importing it." You said of that, 103 millions is extra gold. But it includes some of the demands of the buillion merchants?—The assumption is that 103 millions is extra gold. The normal amount of gold would continue coming in to India as it does now, irrespective of this extra demand. That normal demand might go on as at present on the money market without going through the currency reserves, or it might go through the currency reserves, but it does not affect the total required by the Government or the total of the extra gold required, whichever form it takes, whether it goes through the money market or adopts the new form of going through the currency reserve. Do I make myself plain? The gold would go on coming in, but it might be brought in by the exchange bankers and presented to the Government in exchange for notes and the bullion dealers might buy their gold from Government so that the gold would go in and out or it might be bought by the bullion dealers direct from the exchange bankers.

10,321. You mean instead of their importing it, as they do at present, direct?—Yes; go through the Government.

10,322. But why should there be any change in the method of importation by the private man?—Because you have introduced a new system under which gold can be got direct from the Government. It does not matter. This point is entirely irrelevant so far as the total of the gold required is concerned. It does not alter the position of the Government.

10,323. The reading of paragraph 12, gave me the impression as if that was included, but now you say that it is outside?—This is in addition to the normal demand of India.

10,324. When the Government gave out sovereigns at their option from 1901 till about the war time, the consumption of sovereigns by the public was not anything big?—No.

10,325. It only worked out to 7 crores a year?—I have not got the figure in my head; I have no doubt that is about the figure.

10,326. The absorption of sovereigns from 1901 to 1912-13 was 60 millions in all, with exchange at 1s. 4d. as it then was, that is, it was 7½ crores. Why do you think that the people would now take more gold?—I think that my assumption is that for currency purposes they would take even less gold than they did when they got the sovereign for optional circulation. I have also expressed it as my opinion that once you go through the initial stages the actual demand for gold in India would be reduced. It is this initial stage, the special inducement that you will put forward to the holders of overvalued rupees, not for circulation but for hoarding, to convert their hoards into gold. If you can get rid of that liability, I agree there is nothing in it.

10,327. Would you call the initial stages the first two stages or all the four stages?—I do not refer to any of these particular stages but the initial stage of acquiring the rupees out of the hoards and substituting gold for them.

10,328. We are in the realm of guesses?—Yes.

10,329. (*Sir Purshotamdas Thakurdas.*) Now regarding the quantity of gold and the possibility of our having it and the possible attitude of America towards it, I was reading the other night a speech delivered by the Right Hon. R. McKenna before a Committee of Members of Parliament (it is in the Monthly Review of the "Midland Bank Limited" for February-March, 1925, and I would like to read this part from his speech):—"So far as I am able to judge, I should say that the supply of gold at its present value is more than sufficient to meet the world's demands and that consequently we shall pass into a time of slowly rising prices, more active trade and increased employment. The world's output today is about £80,000,000 a year at par value. There is accumulated in the Federal Reserve Banks of the United States an excess of upwards of £300,000,000 over legal requirements. A considerable demand has of late been made from India, Germany and Australia, but these three countries cannot absorb anything like the total output. The demands in other countries will probably be quite small. . . . . gold will come to this country without our being obliged to attract it by high money rates. . . . ."

10,330. (*Chairman.*) What is the date of the speech?

10,330A. (*Sir Purshotamdas Thakurdas.*) The date of the Review is February-March, 1925, I cannot say what is the date of the speech, it is a speech before a Committee of Members of Parliament. Mr. McKenna stated that the particular question had long occupied the attention of Members in the House of Commons and that he was greatly honoured to be asked to speak on this subject; that is why I said that it was a speech before some Members of the House of Commons. So this does not show any great difficulty about it?—There are a good many views in the world to-day as to the future course of gold prices. Professor Cassell is very seriously concerned about the shortage of gold in the world. There are then some people like Mr. McKenna and others, for whose view there is a great deal to be said, who hold the contrary view that there is rather more gold than is actually required to support the present basis of credit. My safest course is to leave it at that.

10,331. I was wondering whether in view of this sort of statement from a person like Mr. McKenna one may not conclude that there should not be any difficulty of getting gold from either America or through London provided the case of India is put before them in the manner in which you suggested?—It provides the advocates of the cause of India with a strong argument for assuring themselves that there are people who hold that it could be done.

10,332. (*Professor Coyajee.*) There are a few arguments for the gradual introduction of the Gold Standard which I desire to put to you. In the first place, with gradual introduction, no sudden and great demand would be made by India on the world's stock, and the difficulty of large borrowings of gold as pointed out by you would be avoided, because we should be bringing in the interest on the paper currency and gold standard reserve securities in the shape of gold for some years, say 8 to 10 years, and therefore we would not have the difficulty of large borrowings of gold to carry the policy through?—If that is what is really meant and if the interest on the paper currency and the gold standard reserves is to be entirely devoted to the purchase of gold, it involves a charge of 4 or 5 crores a year on the Budget. That is one difficulty.

10,333. Then another argument is that during this period of transition say of a decade, a trial could be given to an improved gold exchange standard, or, on the other hand a shorter and quicker line of advance could be found towards an international gold exchange standard. Is that an advantage?—I think I can agree with that in the form in which it is put.

10,334. Thirdly, we could benefit by the lessons of currency developments and methods of introducing a gold standard and conducting them in western countries?—I think we are in a position to do that even without waiting for two or three years. One argument that does seem to be an important one is that there is at the present moment a large surplus of gold in the United States of America. It ought to be easier to get that gold for a special purpose now when it is surplus to the requirements of one country than it would be to obtain gold after gold has become evenly distributed all through the gold reserves of the various countries.

10,335. (*Mr. Preston.*) Assuming that as soon as gold could be obtainable without touching the gold in our present reserves and taking into account the long time that a gold mint would require to come into operation and the slow progress of minting gold coins, would you consider a period of 10 years as early a date as possible to accept the full liability of a

gold standard?—I think that there are several assumptions there which I would not assume. But I certainly think 10 years is a quite reasonable period.

10,336. You think 10 years would be quite a reasonable period?—Yes.

10,337. Now assuming then that we adopt the method that you yourself suggested this morning that whenever additional currency is required beyond the actual amount of the home charges and which you thought might on an average be about 5 million sterling a year, if in addition to that you were to add an equivalent equal to the 10 crores of local Hundi currency that you create?—What is the amount now, 12 crores?

10,338. Would it be a fair assumption to say that taking the average period of the next 10 years the yearly accumulation of gold would be 7 million sterling?—I do not think you can take the Hundi emergency currency into the calculation because the whole purpose of that special provision is that the currency should be additional emergency currency created against self-liquidating securities and should be automatically self-liquidated shortly after. It does not in itself envisage any addition whatever to the permanent currency of the country. You must therefore leave that out of account. I think 7 crores a year as an addition to the currency is probably a high average. I should not like to commit myself without a little more thought but five is not unreasonable.

10,339. Let us take 5. You say that 10 years would be quite an early period. Under your assumption then that would give us 50 million sterling in addition to that and owing to the slow progress which in my opinion the Mint would take in turning out coins, we could very readily arrange a credit in the City of London for 10 or 20 million sterling on the surplus silver reserves you have got in India?—So far as our credit is concerned I think we could very easily obtain credit either in England or in New York at present on the I.O.U. of the Government of India.

10,340. I am not speaking in the ordinary sense of a sterling loan to be raised in London. I am speaking more of a private credit to be arranged by Financial Houses and Banks?—I do not think there is any difficulty about the credit of the Government of India or its power to obtain for a purpose which is approved a loan either in London or in New York.

10,341. (*Mr. Preston.*) We have been in close touch, with Financial Houses during the last few years who provided finance for countries on their silver reserves pending the sale of the silver in London by means of six months' bills, and it has been very cheap finance to them; and the Government of India, if they were merely to express their desire, not as against the sale of the silver, but merely pending the bringing into operation of the gold standard and ask whether a credit on that basis could be arranged, there would be asolutely no difficulty. That I feel certain.

10,342. (*Chairman.*) Sir Basil, you have something to say on that?—I accept the general statement; I think from the point of view of the strength of the Government of India's credit either in London or in New York there are no very great difficulties in arranging on very reasonable terms an external credit for a reasonable amount for reasonable periods.

10,343. (*Mr. Preston.*) I was merely desiring to get your opinion as to whether you would agree in principle with such an operation?—I should have to consider whether it will be the cheapest way of Government obtaining the money. Subject to that, I would agree.

10,344. I am looking at it from the point of view of addition of the accumulation; so that the accumulation there will be, the accumulation of 5 millions *plus* the 20 millions which we can get. Would that appeal to you as it stands?—If we can persuade the authorities of the City of London and the City of New York to allow us the use of our credits for the purpose of drawing our gold, there will be no difficulty.

10,345. I don't think we need bother about going to New York as long as we can discount the bills and get the gold from London?—The Bank of England would want to know how much its reserve is going to be diverted by this operation or if it is going to be replenished and they might very well do as they did with the Australian Government this year and say that in the present circumstances we cannot afford to allow the issue of a loan in London. It is a question of the strength of the Bank of England reserve.

10,346. That was at the period when the gold standard was still in force—Granting it was just after the introduction of the gold standard, the reintroduction, the return to gold parity in London, it is exactly the sort of purpose for which a credit from New York was obtained by the British Government in case of such a demand for gold when it was introduced.

10,347 Ten years appeal to you as the nearest period; and taking an accumulation of 5 millions a year for a period of 10 years you get 50 millions and that you are in favour or you are not averse provided we could get sanction to float bills for 20 millions and as monthly shipments of about half a million sterling would be sufficient, then we need not disturb the London money market in any way?—I think that the disturbance to the London money market is exactly the same. I do not see that you are making any different proposition from what I was making unless you mean the postponement of the introduction of the system. I suggest introducing it at once. The various stages are set out in that memorandum and the final completion is as I suggested at the end of ten years, whereas your suggestion is the introduction itself ten years hence?

10,348. If your mint is in working order you could commence operations on the arrival of the first 500 shipments from London. Might it not, therefore, be well to invite the mint master to say how long it would be before the mints could undertake coinage and at what rate of outturn per day they could turn out coin?—I don't personally think that there is any check on the progress of the scheme, as regards the question of rate of turn-out of gold coin. I do not regard the amount of gold coin to be demanded as enormous. It is bullion rather than coin for which I anticipate the demand. I don't think postponing the thing for ten years would make it very much easier to introduce.

10,349. That is only allowing for a sufficient period to enable the mint to get sufficient number of coins to make this attempt?—For the purpose of accumulating sufficient amount of gold?

10,350. You say you might have a frontal attack. If from your point of view you think it would be more advantageous to give out gold, then there would be no harm in doing so as shipments of gold come forward to India. We have got to make some sort of beginning whatever system we adopt. Taking this method would that not be a quick means to a satisfactory conclusion?—I think it might be made a means to a satisfactory conclusion; but I am inclined to think that it is possible to adopt quicker methods.

10,351. (*Chairman.*) Just to take one or two points in your examination, first of all as regards the question of the world's gold prices, is that a matter about which you care to give any fuller evidence?—I don't think that the evidence that I could give would be of any appreciable value as compared with the evidence that the Commission would be within easy reach of a few months hence.

10,352. You would rather refer us to the more direct sources of information as regards the prospects of the world's gold supply in relation to demand?—Yes.

10,353. Recognising that there are opinions by authorities which are expressed in a contrary sense, as regards the prospects?—Yes.

10,354. As regards the question of the credit of the Government of India in the world's money centres, I understand you express the opinion that the credit of the Government is more than adequate to raise any amount which might be necessary to carry this policy into effect?—I believe so at present.

10,355. But nevertheless when you come to the question of obtaining financial accommodation, the lender would consider the purpose for which the credit is granted as well as the amount?—Yes.

10,356. You contemplate that it will be necessary to satisfy the contemplating lender as to the purpose for which the credit is granted as well as the sufficiency of the security?—I think that the authorities in England would be reasonably entitled to ask whether the purpose of any loan which the Government of India went to the market for in London was to take away their gold reserve and to take any steps that are in their power if they thought that the action of the Government of India was likely to damage the general position.

10,357. The intending lender will consider not only whether the security is adequate but whether there are any other complications?—The individual issuing house sometimes does not consider those; but the attention of the issuing house concerned is sometimes drawn to broader questions by authorities who are interested in them.

10,358. You point out to us that recently, although the credit of the Australian Government was no doubt more than adequate to raise a loan which it required in London, it was nevertheless, for motives of general policy, referred to other sources of lending?—Yes, for the very reason that the position of the Australian Government in London at the moment was that she in any case was going to draw gold from London and the authorities did not desire to see such an addition made to the amount of gold the Australian Gevernment could draw from London at that time.

10,359. There is only one other matter on which I want you to fill up a small gap in our knowledge on this important question of the amount of additional gold needed to carry this policy into effect. I understand that you have considered the amount of gold necessary for the conversion of hoards, for the replacement of rupees in circulation, and for the fortification of the reserves?—Yes.

10,360. What about the replacement of notes by gold in circulation? Has any allowance been made for that?—No allowance has been made for that; but if the ten crores was assumed as the amount that will go into circulation it does not make a very large difference.

10,361. Then was the ten crores meant to cover both the replacement of notes and rupees?—Yes.

10,362. Now, lastly, to exhaust any possible addition to the supply of gold needed, have you contemplated the possibility that the fact that gold was made more readily available might actually lead to an increase in the amount of gold locked up in hoards?—I don't think it is strictly true that the gold is more readily available in one sense, at any rate, during the first and second stages of the proposal. But at the same time it is the mere fact that gold is available that is brought more prominently to the attention of the people. Actually Sir Maneckji Dadabhoy was inclined to hold, if I judged rightly from the tenor of his questions, that the result of making gold more readily available would be to bring out gold from hoards rather than to take it in.

10,363. What do you yourself think?—I have assumed that in the earlier stage, it will have no effect one way or the other on existing gold hoards and that the second effect would be to reduce the total amount of gold hoarding.

10,364. You are inclined to believe that the result of making gold more visibly available will be rather to increase than to diminish the demand for gold for fresh hoards?—I would say that there would be neither increase nor decrease in the first stage. In the first stage while it will lead to gold replacing silver it will have practically no effect on the total amount hoarded and in the second it will certainly be to diminish the amount hoarded.

10,365. Now, lastly, a question which I should have asked before but which escaped my attention. I want to ask you about the mechanism suggested in Mr. Denning's memorandum for drawing gold to India, which is no doubt within your memory. It is in paragraph 13 of Mr. Denning's Memorandum on a Gold Standard for India. To what extent is it possible to feel confident that this method of procedure will actually place the additional gold required at the disposal of India for the intended purpose?—The assumption is that the operation coincides with a period of good monsoon, when India has a considerable balance of exports over imports to be covered either by Government remittances or by import of gold or by both. If temporarily you withdraw the facility for getting Government remittances, I think that the exchange banks and others would be forced to bring out gold in order to obtain currency with which to carry on their operations. I think there is no doubt as to the certainty of the effect of such operations. It simply comes to this: that Government withdraw from the market and leave a gap which is to be filled by the import of gold into India in order to build currency on it.

10,366. What is the reply to the comment that, assuming a good year in which there is a large export and flourishing trade, any additional gold drawn to India by this method may merely pass into circulation as the necessary supplement to the currency of the country required by the prosperity of trade and does not become available for the replacement of rupees?—If it remains in the Government's balances, or rather in the currency reserve balances, currency is issued against it; the position of the Government is considerably improved, and it could probably then do some remittance which otherwise it could not do and avoid external credit to that extent.

10,367. If it remains in the currency balances, notes are issued against it?—Yes; the position that is envisaged I think is that the exporter from India is exporting largely and his exports have to be paid for. The exchange banks have undertaken the liability to meet his demands for currency and they would quickly find themselves with all their balances in London and none in India if they could not sell sterling to Government. They would have their sterling in London and would not be able to meet their obligations in India. They would therefore use the sterling in India to bring the gold out. They would take the gold to the currency authorities and get currency with which to pay their Indian obligations. They would obtain their rupees in that form or alternatively they might simply sell the gold. I have not given the operation quite correctly in this case. They would sell the gold in the bullion market and get rupees for it; in that way the rupees coming in would eventually be the rupees that have come out of the hoards.

10,368. Why would it be sold?—In the latter case because there would otherwise be no currency with which to pay for the bullion to that extent.

10,369. The gold is brought to the currency authority and currency is obtained against it. Then there is a fresh outstanding form of liability against this gold held by the Government, so that the gold is not available for the conversion of fresh rupees. Is that it?—Well the proportion of gold has been increased in the currency reserves at that stage of the operation.

10,370. So that a proportion of it can be used for the conversion of rupees?—And the Government is then in the position of being able to stand any reasonable demand which may arise for conversion of rupees

into gold at the currency office without importing fresh gold. It can wait there till the rupees come to it.

10,371. Supposing the gold is sold by the exchange bank to the bullion broker and the bullion broker sells it to the public, the bullion broker receives so many rupees with which he discharges his liability to the exchange bank. What does the exchange bank do with the rupees?—The exchange bank I suppose in that case will pay them into the currency office; it will get a cash balance at the Imperial Bank I suppose.

10,372. My difficulty, which may be an unnecessary one, is that this argues a period during which an extension of the currency is necessary, and it would seem that the import of gold is no more than is necessary in order to provide for the extension of the the currency?—There is some extension of the currency. I think it is the reflection of the fact that currency which is at present in hoards has come out into use as currency again and its place has been taken by gold and rupees have come out from hoards into circulation. There is temporarily at that stage necessarily a considerable increase in the total circulation, but that must pour into the currency office because it has nowhere else to go to, and that is one of the means by which the rupees will come out from the hoards into the hands of Government where they will be surplus in the form of rupees and ripe to be converted into another form of reserve.

10,373. Once they get into the hands of Government, all is well?—They must come into the hands of Government at some stage I think because if they do not come into the hands of Government there won't be this extra demand for gold because there won't be extra rupees to pay for it if the rupees do not come out of the hoards. They must come out of the hoards in order to pay for the gold which they have asked for. If they do not come out there is no demand for bullion, and the bullion stays in the reserves.

10,374. Now turn to the other side of the picture, and that is the possibility of a bad year. If you have a bad year, with diminishing exports, so far from being able to keep the exchange above the limits of the upper gold point you might be fighting for your life to provent it falling below the lower gold point, and there would be no question of drawing gold?—Of course if the Government is out of the market for remittance it is a very improbable position that the exchange will be at the lower gold point.

10,375. It would have to be a very bad year?—It would have to be a very bad year, I think, at that stage.

10,376. And if there were two bad years?—Well we went into that matter to some extent the other day and I think the view I took was that the worst moment was when the imports ordered in a good time are coming in in a bad time and have to be paid for.

10,377. Yes, that is so. There is one question which I asked on a previous occasion on which I would like to get a clearer idea, and that is, following up all possible hypotheses, the question as to what line of action should be suggested in the case of a minimum response to the offer for the conversion of rupees into gold. This is the supposition that nothing happens. Supposing the full obligation has been accepted to convert rupees into gold and it is to remain a continuing liability, and supposing that rupees are not presented for conversion into gold, you will then be confronted, will you not, with a sort of Damocles' sword which will be constantly hanging over your head and which might materialise at the most inconvenient moment?—Yes, except if you come to the conclusion that you had overestimated the amount of rupees that was to come out.

10,378. Nevertheless a considerable period of time would have to pass before you became confident of that conclusion?—You would during that period of course, instead of having a shortage of gold in your reserve, tend to have a very large proportion in your reserve in the form of gold.

10,379. All that one can say about it is that you would be holding an expensive reserve and not deriving any benefit from it?—It would not be so expensive as if there was a tremendous demand.

10,380. What would the difference be?—You would not in those circumstances have to resort to any temporary credit abroad.

10,381. But you would have to raise the credit to get the gold into the reserve?—No, you would have to arrange credit, not necessarily to use it, because you would rely mainly in the first instance on the sale of your securities. Your aim would be during that period to keep the amount of gold in your currency reserves up to a comparatively high figure and you would take no steps to increase it specially until a demand arose.

10,382. Do you contemplate that it would not be actually necessary to draw on your credits unless and until that demand materialised?—You might have to pay something for your credits, even though you might not use them.

10,383. On the analogy of similar credits Great Britain has recently raised in the United States?—Yes; that ought to be a very small expense.

10,384. I think that completes all the questions I have to trouble you with upon this heading, Sir Basil?—I do not feel that I have given a completely satisfactory answer to the question you put as to the drawing of gold to India and its effect on the currency. I should like if I might to put in a memorandum on that point—the course of events that is adumbrated in Mr. Denning's memorandum regarding the withdrawal of the Government from the remittance market and the forcing of imports of gold.

10,385. I am very much obliged to you for the suggestion, because, if I may say so, I have decided to treasure up your answers for subsequent consideration, feeling that I have not attained perfect clarity myself in regard to some of them?—I hope my answers were correct so far as they went, but they were not I think clear. I did put it down on paper for myself at one time just because of the obscurity of the hypothesis involved.

10,386. The question about which it may be necessary for the Commission to get a perfect clarity of mind is as to what exactly would be the effect of this system in operation in a period of good trade and increasing exports?—Yes.

10,387. And how the additional forced import of gold, if one may use the word " forced " without any derogatory meaning, would operate to reduce the silver hoards. I think that would be of very great interest. I do not know whether there are any further questions that the members wish to ask Sir Basil. There are various headings we have not touched upon, and if there are any further questions to ask I believe we can have the advantage of his presence here to-morrow morning?—If the Commission desires I will be here to-morrow morning.

10,388. (*Sir Purshotamdas Thakurdas.*) I think, Sir, there are one or two points on which I should like to question Sir Basil to-morrow morning.

10,389. (*Chairman.*) It occurs to me there may be some further points which may have arisen in connection with the ratio and possibly some of us might like to ask questions about that; I have none myself. Under those circumstances perhaps, Sir Basil, it will not be inconvenient to you to be here at 10.30 to-morrow morning?—Certainly.

(*The witness withdrew.*)

TWENTY-SEVENTH DAY.

Thursday, January 7th, 1926.

PRESENT:

THE RIGHT HON. EDWARD HILTON YOUNG, P.C., D.S.O., D.S.C., M.P. (*Chairman*)

Sir RAJENDRANATH MOOKERJEE, K.C.I.E., K.C.V.O.
Sir NORCOT HASTINGS YEELES WARREN, K.C.I.E.
Sir REGINALD MANT, K.C.I.E., C.S.I.
Sir MANECKJI BYRAMJI DADABHOY, K.C.I.E.
Sir ALEXANDER ROBERTSON MURRAY, C.B.E.
Sir PURSHOTAMDAS THAKURDAS, C.I.E., M.B.E., M.L.A.
Professor JAHANGIR COOVERJEE COYAJEE.
Mr. WILLIAM EDWARD PRESTON.

Mr. G. H. BAXTER
Mr. A. AYANGAR } (*Secretaries*).

The Hon. Sir BASIL P. BLACKETT, K.C.B., K.C.S.I., recalled and further examined.

10,390. (*Chairman*.) Sir Basil, are there any particulars which you would care to add to the answers which you gave us yesterday or by way of further elucidation of those matters?—The question of the way in which the extra gold would be brought to India and what its results would be was one which I said yesterday I would like to add something to. I have tried to think it out in a way that is clear. The question was how would the operation alluded to in paragraph 13 of the memorandum on a gold standard for India really work. The assumption in that paragraph is that owing to the action of the Government in using its balances in England to meet its external expenditure the exchange banks would be in the position of having over-bought sterling and having no means of covering themselves except by importing gold into India. This import is assumed to be additional to the usual private imports. In order to get currency the exchange banks will present the gold to the Government at the currency offices for exchange into currency for circulation. This will strengthen the gold in the currency reserves and there will be an increase in the note circulation; but the Government will have been drawing on their sterling reserves to meet their charges in London, and in doing so will, of course, effect a reduction of the sterling securities in the reserve against which there will be an equivalent reduction of notes by cancellation in India, the extra gold imported being assumed to be equal to the amount of the remittances. The position will be that the sterling reserves will have been reduced by a figure which is taken in that memorandum at 46 crores over a whole year; the sterling reserves will be reduced by 46 crores, the gold in the reserve will be increased by 46 crores, and the note circulation will remain the same. All that will have happened under that assumption will be that the sterling securities will have been converted into gold. But there is another possibility. It may be, and is on the whole, likely that at the beginning of the introduction of the scheme the additional import of gold by the exchange banks for currency purposes will be sold to the bullion merchants rather than to the Government, because the Government would be charging a small seigniorage and the bullion merchants would probably give a slightly better price than the Government. The exchange banks will, therefore, sell the additional gold to the bullion merchants, who will be prepared to meet the first demand for conversion of silver rupees in hoards in that case by means of the extra gold imported. The bullion merchants will then sell the extra gold to the holders of those hoards of rupees with the result that the volume of silver rupees in circulation would be increased by the amount of the rupees that comes out of hoards. On the other hand, there will have been a corresponding reduction of notes in circulation, owing to the action of the Government in cancelling notes in India against sterling securities transferred in London from the paper currency reservo to balances. At that stage, therefore, there will be an increase in the silver rupees in circulation corresponding to an equivalent reduction of notes in circulation. The next step will presumably be that there will be a return of the silver rupees that have come out of hoards into currency offices in exchange for notes. The resultant increase in the circulation of notes will replace the notes cancelled by the reduction following on the Government remittances to London through the reserves. So the final result is that the hoards of silver rupees of the public have been reduced by 46 crores and replaced by gold, the silver in the reserves has been increased by 46 crores, and the sterling portion of the reserves has been reduced by 46 crores. That is to say, the hoards have been bought off to the extent of 46 crores, and the silver portion of the reserve has been increased against reduction of sterling. In due course the silver portion would thereafter be replaced as the rupees are melted down and sold by gold or sterling. I think that is an analysis of the position which brings out the implications of paragraph 13.

10,391. You have given us a very clear analysis. In the latter case which you have analysed, we have followed the rupees actually back into the currency office?—Yes.

10,392. In the former case we have not followed them quite so far on the supposition that gold is brought by the exchange banks to the currency office for currency. In the former case we have got as far as this, have we not, that the gold reserves of the Government of India are strengthened in proportion to the note issue, and therefore there is a proportion of gold available for the conversion of the rupee?—Yes.

10,393. But the final stage by which that gold becomes converted into rupees would still have to be taken in some form or other?—Yes; the position at that stage is that the gold in the paper currency reserve has been very greatly increased and is available for the purpose of meeting the return of rupees from hoards desiring exchange into gold.

10,394. (*Chairman*.) The Commission is now in possession of the contemplated working of the proposal. I have no further questions myself to ask you; but there are various matters on which my colleagues may still require your assistance, if you will be so good as to deal with any supplementary questions from them.

10,395. (*Sir Purshotamdas Thakurdas*.) Regarding the Genoa Conference and the arrangement arrived at there by the various powers, it has been said that the problem which the Genoa Conference had to solve

was quite different from the problem which has to be solved in the case of India: it has been said that in the case of the European problem it was a question of putting on sound footing the destroyed currencies of the major part of Europe, but that in the case of India it is a question more of bringing out the gold which is in the country but is not available for currency purposes; and that therefore the remedy suggested by the Genoa Conference would not apply and would not be a correct remedy for India. So you agree with that, or would you point out where you differ from that opinion, Sir Basil?—I think that the proposals put forward by the Genoa Conference are of universal application. The circumstances of certain of the European currencies which were dislocated at the time of the conference undoubtedly differed from the circumstances in India, but in my opinion the proposals of the Genoa Conference can be universally applied.

10,396. Irrespective of the banking facilities or the habits of the country and of the long usage or custom to which the people may be addicted for a hundred years or more?—I think so, yes.

10,397. The provision of adequate or inadequate facilities does not make a substantial difference between the two?—I think it makes a difference in the point of view of approach to a solution of the problem; but I think that the application of the general principles laid down at Genoa is the same, whether it is a country like Latvia, or Austria or Germany or India.

10,398. The goal for all the countries I take it in your opinion would be the same: but would not there be a difference in the stages by which you approached the goal?—There may be a difference in the stages.

10,399. Could you not make it a little more definite than that? Would you not think that a difference in stages is necessary?—The goal in each case is, I think, paper currency inconvertible internally but completely convertible on a gold basis for the purposes of foreign payments, the object of that arrangement being to give a perfectly stable internal currency for all the countries of the world based on a gold standard, arrangements being made to economise the gold by not having it wastefully used in circulation in the various countries concerned, but kept in central reserves, the ideal aimed at being that you might go on, from having national reserves of gold, to have something in the nature of international reserves of gold; and I think that applies just as much to India as to any of the other countries; India is quite capable of being a valuable partner in that international arrangement, just as capable as any of the other countries, and a most important partner in the arrangement.

10,400. But India could be such a partner only if India is brought to the goal in a steady manner; if any of the means adopted in that should be regarded otherwise it would be a setback to this progress towards the goal?—It is most desirable, of course, that the currency system adopted by India should be one which is generally regarded by the people of India as a desirable one.

10,401. And should be accepted by them as such?—Yes.

10,402. In the case of these European countries the question was how to get gold backing for their currency systems?—In some cases, not in all.

10,403. In the case of the majority of the countries which really gave anxious thought for their finance?—The anxiety of those who were concerned in the Genoa Conference was undoubtedly to try and restore confidence in and stability to the currencies of the disordered countries of Europe.

10,404. For which countries it was a question of how to get the gold necessary for the backing of their currencies?—It was not always a question of how to get gold; it was a case of how to get them to use it.

10,405. Wasn't it a question also of giving them credit in order to start their currency programme?—It went a stage further back and pointed out to them that you could do nothing as regards the getting back to anything like stability until you stabilised the budget.

10,406. But after the budget part was over?—It was not in all cases a matter of a real shortage of gold. It was an unwillingness to face the fact in a great many cases that the currency had essentially broken away from its pre-war parity, and it could not be usefully thought of in terms of its pre-war parity.

10,407. These countries, Sir Basil, didn't have gold imported on private account?—Not to any extent comparable to that which takes place in India.

10,408. In India there is a free import of gold and the import of gold last year was much more than what Government imported?—Oh, yes; the Government did not import anything last year.

10,409. I mean much bigger than Government have ever imported in one year?—Oh certainly.

10,410. Therefore, the remedy that has to be devised in the case of India should be one which is different from that required by some of the States of Central Europe?—I don't think that the currency policy alone can finally solve the question of the Indian habit of importing gold for private purposes.

10,411. No. Not the currency policy alone but a correct currency policy in keeping with what Indians can understand and appreciate would help that solution very materially?—I hope so, certainly.

10,412. I take it that you also think so and agree with it?—That is the basis of my recommendation of the gold standard.

10,413. Then in that case, Sir Basil, bearing in mind that the bulk of the evidence before the Commission has been for a gold standard and a gold currency and that not a single witness, as far as I remember (I speak subject to correction by any other member of the Commission) not a single witness has indicated inconvertible paper, do you think that a policy which indicated inconvertible paper (you can later on put it in any shape you like) would be the correct safe policy in the direction of the goal of the Genoa conference?—I should hesitate to count heads when I was weighing evidence. If I got really good evidence from two people in favour of inconvertible paper, I might regard it as more important than evidence against it from 200 people.

10,414. Yes, if it was of such outstanding merit and if you saw such merit in it. But where it was a question of getting popular approval of it and getting something which would be acceptable to the country, I don't think we can get out of counting heads?—Except that I hope that the report of Commission will be a real education to the people of the country, and it is after all the duty of those who understand the subject to educate the others to appreciate what is really good for them rather than to say that because you ask for something though we do not think it is best for you we are going to give it to you.

10,415. If there were not any material defects in what was accepted by the country and looked forward to by them, could you turn it down lightly?—I think we are getting into rather a hypothetical region What I do say is that I do think the demand for gold in circulation in India is based on some misunderstanding of currency and I would like to do my best to make people realise the benefits of something other than actual gold in actual circulation.

10,416. And I take it that from what you have told us before now it would be a fair inference that you are for steady measures which would lead in that direction?—Certainly.

10,417. (*Sir Purshotamdas Thakurdas.*) May I ask questions, Sir, regarding the ratio?

10,418. (*Chairman.*) I think it would be convenient now to cover all outstanding questions.

10,419. (*Sir Purshotamdas Thakurdas.*) Then I will ask after any other member who has questions to ask on the question I have finished.

10,420. (*Chairman.*) I think, Sir Purshotamdas, you had better proceed, and then we will have a general sweep up.

10,421. (*Sir Purshotamdas Thakurdas.*) I propose now, Sir Basil, to ask about the question of ratio. In your evidence at Delhi you said that in October, 1924, the Government apprehended that in the absence of definite action by them the rupee may quickly go up to 1s. 7d. or 1s. 8d. sterling, which would have meant 1s. 5d. or 1s. 6d. gold at that stage, and that Government decided that some action would have to be taken to prevent the appreciation of the rupee for 1s 6d. sterling which was then 1s. 4d. gold. Could you give me the reasons that induced the Government to change their policy and eventually allow the rupee to reach 1s. 6d. gold which was exactly what they appear to have wished to prevent at the earlier stage?—1s. 6d. gold?

10,422. Yes?—The Government did not change their policy. The Government, as was explained in the previous evidence, intervened at the moment when exchange was at 1s. 6d. sterling with the intention of preventing it from rising above 1s. 6d. sterling. The moment of their intervention was actually the moment when exchange was for the first time for some time past at 1s. 4d. gold. The reason for their intervention at that moment was that it was the beginning of the busy season and they had to intervene and take some action and for the time being fix on some rate which they would regard as the maximum they thought desirable for the time being. The rate they fixed on was 1s. 6d. sterling. The fact that 1s. 6d. sterling became 1s. 6d. gold during the next four or five months was a matter which arose out of the appreciation of sterling in terms of the dollar, as the moment approached when sterling and gold became on a par again. The Government of India did not change their policy in any way. They stuck steadily to their figure of 1s. 6d. sterling.

10,423. And they would have stuck to the figure of 1s. 6d. sterling whether the sterling reached gold at all or not?—For the time being they choose 1s. 6d. sterling as the figure at which to keep exchange steady, not with reference to its value in terms of gold but with reference to the steadiness of the rupee—sterling exchange.

10,424. I see. Considering the course of exchange since 1898 when it was stable at about 1s. 4d. for 20 years, rising and unstable for 3 years thereafter, 1918-20, varying from 1s. 4d. to 2s. 10d. and unstable for 2 years, 1920-22, rather steady at 1s. 4d. for one year, 1923, and again rising up to 1s. 6d. for one one year, 1924, and recently steady at the latter figure, do you think in these circumstances, all adjustments at the level of 1s. 6d. could possibily have been made?—I think, I said in the previous evidence that in my view the majority of the adjustments arising out of the various changes that have taken place in the value of the rupee over the last ten years were in process of being completed at the rate of 1s. 6d.; that there were some still to go and others would probably take a little longer, but broadly speaking the adjustments were approaching completion. I don't think that one can talk about it as adjustments as from 1s. 4d. to 1s. 6d. It is adjustments to a rate that for the first time for 8 years has been steady for over a year.

10,425. Yes. Would you name the principal items of adjustments which are not yet complete?—I think that cotton is one of the instances in point. The price of both raw cotton and cotton goods. World conditions have affected the position very considerably and cotton has been rather out of equilibrium with other prices. I have not in my mind at the moment any general list of cases in which adjustment has been completed or is approaching completion, and of course it is a matter where it is difficult to be precise.

10,426. Of course at Delhi we agreed that wages had not been adjusted, neither industrial nor agricultural?—I said that I didn't think there had been any fall in wages as the result of the recent rise in the rupee but that there was a general tendency for money wages I thought to rise in India over a long period and for real wages to rise too and that I didn't expect a large fall in money wages as a result of the fixation of the rupee at 1s. 6d.; that its effect would be, if anything, rather to postpone or prevent the rise in money wages which would otherwise have taken place.

10,427. The representatives of the Bombay millowners giving evidence before the Commission definitely mentioned it as their conviction that they do not expect to be able to put down wages without great disturbance to the relations between labour and capital in Bombay. Asked whether they do not apprehend having to raise wages if 1s. 4d. was stabilised, Sir Victor Sassoon definitely said that this association apprehended nothing of the sort as their experience during the last 25 years has shown that labourers expect an increase in wages only when the mills are thriving. Do you share this opinion of the mill-owners or will you give us the reasons why you differ from them?—The mill-owners said, as I understand it—I have not seen their evidence—that they see no possibility of putting wages down much as they perhaps would like to do it, without a strike. Therefore, they want the assistance of this Commission in putting them down by putting the rupee to 1s. 4d. instead of 1s. 6d. That is how I would read that statement.

10,428. That may be one way of putting it. But I don't think that is the way in which it was either meant to be taken or understood?—That is its effect, I submit.

10,429. That may be, and I am quite prepared that it should go on record as your construction. I am only concerned with the question to this extent. You said that the tendency of wages in India is to rise and 1s. 6d. has prevented the rise. An important section, a very large employer of labour in Bombay has definitely said that they don't apprehend any rise except when the industry is prosperous. And that if 1s. 6d. was stabilised they fear that they will not be able to continue to pay on the same scale as at present, and a long and perhaps very distressing struggle may have to be started between capital and labour. That is the extent to which I am concerned with them?—I quite see their difficulty. Their difficulty is that they feel that with the rupee at the 1s. 6d. level, the money wage which they are at present paying is actually higher than they can afford. And they would like to get out of the difficulty by a reduction in the rate of exchange, quite naturally.

10,430. Not for that purpose. However, we won't discuss that. Therefore, you share their apprehensions in that if 1s. 6d. continues, their apprehensions regarding a long struggle between capital and labour may come to be realised?—I don't know that I necessarily share their apprehensions but I recognise that they have had some difficulties.

10,431. Do you agree with them when they say that if exchange was stabilized at 1s. 4d., they would not have to pay an increase?—I must say that if I were a worker in a Bombay mill, when exchange was down at 1s. 4d. I should ask for an increase.

10,432. They say that labour would not strike for higher wages?—It does not definitely mean a reduction in the money wages of the labourer. Therefore I do not say that they would strike for higher wages because it will be concealed in the form of a fall in exchange. But it would certainly be a reduction in the real wage of the labourer; whether it would be justified or not, I think I am not in a position to say.

10,433. I am sure that there has been no reduction in railway freight since the appreciation in the rupee?—Yes, I think there has been some small reduction.

10,434. A general reduction in railway freight rates?—No general reduction as yet; there have been some small reductions and I hope that considerable, rather bigger reductions both in railway freights and railway fares, are coming fairly shortly. That is a matter which will perhaps be known by the time the Commission has reported,—as to whether there has been a further reduction,—but I think it is quite definite that as a result of the improved position

with which the improved exchange has something to do, the railways are earning considerable sums for their reserves and are hoping to be able to use those reserves for a reduction of fares and rates.

10,435. Of course that is a matter of State secret until the Finance Department notify it and I do not propose to ask you on that. There is one general question. Until there is a corresponding reduction in railway freight rates and carriage or for export of goods to the coast, you would recognise it as a maladjustment?—I think that the present rates of railway freights and fares are historically due partly to the difficulties of the Government of India in budget matters during and after the war and partly undoubtedly to the rise in prices and general financial difficulties, and that as things grow easier, a reduction is due. That is one of the reasons and the other reason is the improved position of the exchange. I do not know that it is quite true to say that there is a maladjustment at present between railway freights and other prices, because I think if you compare the pre-war position with to-day, the railway freights have not gone up by more than on the average 30 per cent. whereas the general cost of living and general wholesale prices have gone up by almost double that amount.

10,436. Railway freights have not gone up by more than 30 per cent.?—I think I am right in saying that; I remember figures being given in a debate in the Assembly about a year or two years ago.

10,437. I remember those figures roughly but I am not questioning you about them. What I want to ask is whether in cases where the general level of prices for a raw material which is exportable is advanced by say, 70 per cent. over the pre-war level of prices, if the other charges payable on that raw material after it leaves the field and before it is put on a ship, has advanced 30 or 40 per cent. in such case does the appreciation of the rupee not mean a reduction to the grower to the extent of maladjustment in these intermediate charges between the farm and the ship?—Appreciation from what?

10,438. From its pre-war figure?—One cannot expect the prices of all the various commodities to settle down in exactly the same relation to each other as they were before the war. I think as a general statement I could accept what you say, that where charges have gone up more than in proportion to other prices such as if railway fares which you mention have gone up more than in proportion to the other costs, there is some further adjustment which is likely to take place, or is desirable.

10,439. Can you tell us approximately the period when the balance of adjustments is likely to take or should take to make the maleffects of the appreciation disappear?—I think the vast majority of the adjustments take place within a year or 18 months and there are some which necessarily—the customary prices and things of that sort—take very much longer but I think the vast majority take place within a year or 18 months.

10,440. One or two witnesses that I have in mind I think put down the period at between 7 to 10 years?—There may be individual cases where an adjustment may not take place for a life time but I think 99 per cent. of the adjustments take place very much quicker, within a couple of years.

10,441. Between say 18 months and 5 years?—I say within a couple of years.

10,442. Is it the intention of Government to make any reductions in the pay of their subordinate and menial staff and of the superior services in view of the appreciation of the rupee?—Again the appreciation of the rupee from 1s. 4d. before the war to 1s. 6d. now, meanwhile prices, the level of prices having altered all along the line. I think it is generally true that if you take 1914 and the cost of living or wholesale prices or retail prices then and compare them with what they are to-day and then you take the wages and salaries of either the subordinate services or the higher services, the salaries have gone up less than in proportion to the rise in prices. That is certainly true of the higher services; it is not perhaps true in all cases of the subordinate services; but I believe it is on the average true that even in the case of the subordinate services the increase in wages has not been entirely in proportion to the increase in prices; that is, the subordinate services along with the rest of the population are paying some share of the cost of the war.

10,443. In 1922, when the rupee was under 1s. 4d., it was generally recognised that the increases given in the pay of various Government servants were about commensurate with the rise in the cost of living?—Was that agreed generally? It certainly was not true of the higher-paid services.

10,444. I am only asking you whether it was not the general feeling that no more increases were either called for or should be given?—Certainly there had been a tendency I think in view of the increase in the cost of living and so on to think that one after another the increases in the salaries to the subordinate services should not be more than the State ought properly to bear in the difficulties in which it was, but I do not think it was established that to any general extent there had been an increase in the pay of the subordinate services more than in proportion to the increase in the cost of living.

10,445. You have heard it that the range of pay in private service, of private individuals, etc., shows an inclination towards some curtailment?—I believe that is so at present.

10,446. Need not Government follow it up?—I think Government are in the position of not having followed the rises quite to the extent of the private employers, and therefore one is not likely to follow the fall quite so readily. But I may mention, speaking for myself, that the general effect of the increase in the rupee up to 1s. 6d. recently has been to enable me in many cases as Finance Member to rufuse increases that I might have had difficulty in refusing otherwise.

10,447. On the score of the appreciation of the rupee?—Yes. It works negatively much more than positively; it is much more difficult to work it positively.

10,448. With reference to paragraph 4 of Mr. McWatters' memorandum, there the deficit in the Central Budget owing to a ratio of 1s. 4d. being adopted is put down at 3·16 crores excluding railways. Against this it is pointed out that there would be a higher revenue from increased customs on articles which are liable to an *ad valorem* duty. Mr. McWatters gives the figure for the higher return on *ad valorem* articles at 2·62 crores on the following two assumptions, (1) that the figure of imports is not diminished, (2) that the price of imported goods is raised by the full amount of 12½ per cent. Allowing a reduction of 62 lakhs for variations due to the two assumptions of Mr. McWatters, there is a net loss of 1·16 crores in the general Budget of the Government of India, excluding railways. Do you think that the Central Government are likely to make up this 1·16 crores by increased revenue under the head of income-tax as local industrial concerns and the general commercial community as a whole claim to be better off with a lower exchange than a higher exchange?—I am afraid I do not follow those figures. I have not seen Mr. McWatters' memorandum.

10,449. You see, 3·16 : 2·62 is what he gave by a subsequent memorandum. You would like to see that memorandum? He put in a memorandum which I asked for in Delhi, but unfortunately it is not with me?—I do not think I have seen it. The assumption is?

10,450. The volume of imports is not diminished, and secondly the prices of imported goods rise by the full amount of 12½ per cent. in rupees?—I wonder if you could kindly repeat the question.

10,451. The first part is only a summary of the memorandum. With reference to the paragraph in Mr. McWatters' memorandum, the deficit in the Central Bank due to the ratio of 1s. 4d. would be 3·16 crores excepting railways, and, of course, not

counting capital expenditure. Against this there would he a higher revenue from increased customs on articles which are liable to *ad valorem* duty. Mr. McWatters gives figures for the latter at 2·62 crores on the following two assumptions, (1) that the volume of imports is not diminished and, (2) that the prices of imported goods rise by the full amount of 12 per cent. Allowing a deduction of 62 lakhs for variations due to the two assumptions of Mr. McWatters, there is a net loss of 1·16 crores. Do you think that the Central Government are likely to make up for this 1·16 crores hy increased revenue under the head of Income Tax as local industries and the commercial community claim to he better off with a lower exchange than with a higher exchange?—I do not think that there would he an immediate increase either in the customs duty or in the yield of any other tax to the extent proposed. The increase in the customs duty would prohably fairly he seen over a period of two or three years. But the increase in Income Tax seems to me to be very problematical. I said last time that I thought that ultimately, after a period of some years, it made no difference to the Government what rate of exchange there was. But the temporary effect of a lowering of the rate must necessarily be an immediate increase in taxation. I do not think that you would get the full two crores in the two years that you are speaking of, and so far as other taxes are concerned, it will he more like three years before you get the additional yield from existing taxes as a result of the lowering of exchange.

10,452. May we take the two separately just to understand the position a little more clearly? Regarding the increase in the return from the customs, is it not indeed a mere matter of calculation? After all the rupee prices would advance to the extent of $12\frac{1}{2}$ per cent. as hetween 1s. 6d. and 1s. 4d?—Yes; but of course, there is a considerable lag. Most of the valuations are annual. Some are longer than annual, so that it would not he until you had had a year at the higher prices for imports that you begin to get the henefit.

10,453. I fully agree. I am not thinking at all of the higher prices. I am only thinking of the conversion of the sterling into rupee?—Your customs duty is paid in rupees on a tariff valuation.

10,454. And the invoice price is converted from the sterling into the rupee, either on 1s. 6d. basis or on 1s. 4d. basis?—In a great many cases the valuation is annual.

10,455. But is your annual valuation in rupees or is it in sterling convertible at the current rate?—In rupees.

10,456. Even for *ad valorem* articles?—Yes; so that you have got to consider a longer period.

10,457. One year at the most?—Yes; and certainly not less than one year on the average.

10,458. And that year need not necessarily mean delay because when you adopt 1s. 4d. in your budget that would be about the time when you fix prices for the customs revenue?—The valuation is fixed on an average of prices over the preceding period. It is an automatic result of an average of prices for the preceding year.

10,459. And if the exchange went up to 1s. 8d., don't you think you would have to give the commercial community the benefit of the higher exchange and take lesser rupees?—In such a case you would change your system of valuation rather arhitrarily.

10,460. But surely you had to thus change before now. Of course, the war period is rather had in that sense?—We had the position of course. It is very frequent. Any of those who have been dealing in imported articles will know that. The traiff valuation, the change on the first of January in the tariff valuation, has made a very hig difference in regard to a good many of these articles owing to previous figures. For instance customs on cotton goods. There was a big fall in the valuation of cotton goods introduced rather exceptionally, I think, in the middle of the year in view of the special difficulties of the cotton trade.

10,461. You had to put down?—We did put it down rather exceptionally early.

10,462. There therefore is a precedent which would not prevent you from putting it up now if justified. It will perhaps depend on the extent to which the Finance Department assert themselves?—I doubt if we could force anything of that sort.

10,463. One of the reasons embarrassing the Government of India in a scheme for gold standard and gold currency is the quantity of gold required hy the Government for the new policy and the cost of the same. With exchange stabilised at 1s. 4d. gold to the rupee you require less gold for every rupee that may be offered for exchange in gold and the amount of gold actually required will be appreciahly less than the amount of gold which you estimate on the 1s. 6d. basis. What importance do you attach to this consideration of the fixing of the ratio of exchange between the gold and the silver rupee?—It is a very attractive method of reducing the cost of the gold standard which has not escaped our attention. But it seemed to us that you could hardly deliberately set ahout to reduce the value of all your silver rupees now in the hands of the puhlic in order that you might possibly redeem them at a less price. It did not seem to he a consideration that the Government could very seriously put forward, either put forward as a reason for doing something or give weight to as a reason for doing something, that they would he ahle hy putting exchange at 1s. 4d. rather than at 1s. 6d. to pay less for the rupees which they want to redeem.

10,464. Consideration for those who hold rupees in hoards? Not fair to them?—It is hardly fair deliberately in order to be able to redeem those rupees at a lesser rate. I recognise it is a very important contrihution.

10,465. What about those, Sir Basil, who hold their hoards and their savings not in precious metals as hoards hut as silver ornaments?—The precious metal of silver ornaments is not a promise of the Government to pay. It is not a bit of silver stamped by Government stamp. It is an ordinary commodity.

10,466. Even though you may recognise, as I am sure you will, that the silver ornaments represent the hoards, the savings, of the poorest classes in India?—In some cases of course: that is one of the difficulties.

10,467. In the majority of cases. Who else wears these ornaments?—The richer classes have it in the form of silver utensils. I was not confining the word ornament simply to personal ornaments. But I accept the point. One of the difficulties of course of the proposal for a gold standard is that it will reduce the value in the hands of the large hulk of the population of the silver which they hold.

10,468. As against the consideration that the Government wish to show towards the people who hold rupees in hoards and to those who hold rupees in circulation it may not matter at all, don't you think that the other consideration ought to weigh equally if no more?—I think I should say not so much, because it is not a Government promise to pay. But it is an important consideration. We had proposed, you rememher, to protect the holders of silver in this country to some extent by the imposition of a four anna per oz. import duty, which will be a protection to the holder of the silver ornaments to that extent.

10,469. Yes; hut that would be a round-ahout way of giving protection and if we merely agree that some protection, or every possible protection which may he given should be given, would not the lower rate of exchange he the most direct protection that you could give?—I do not think the lower rate of exchange in any way helps the holder of silver ornaments.

10,470. Is silver not worth less in rupees at the higher rate of 1s. 6d?—It will have very little effect in reducing the amount of silver that you will have to liquidate.

10,471. Of course not; but it would make a difference in the price that the holder of silver ornaments will get?—It makes a difference from the point of view of Government between the currency value of the rupee and its value as bullion. But it does not add anything to the bullion value of the silver in the ornaments.

10,472. Except that the market price of it is higher in rupees?—I do not think it is any the higher.

10,473. To-day the price of silver here is 71 rupees. If exchange was 1s. 4d. you think that the price will be 71?—But the commodity price would not be any higher.

10,474. How do you mean the commodity price?—Rs. 71 for 100 tolas at present. If you had the exchange at 1s. 4d. . . . .

10,475. It would go up by Rs. 9?—Only Rs. 9? Yes.

10,476. Then silver could not be imported into India at less than Rs. 80 per 100 tolas?—It would, certainly, I agree, be worth more in terms of rupees. But those rupees will be worth less in terms of commodities. But you have done nothing to help the holder of the silver ornaments by allowing him to get rather more rupees at a rather less value. He gains nothing by getting more rupees if they are worth rather less.

10,477. The question then is at what stage is the rupee worth the same, and you come back to the same point?—Yes.

10,478. A witness in his written statement before the Commission has the following. I may say, Mr. Chairman, that this is by Professor Junnarkar of the Dacca University, whose written statement I have here. He says "The rise of the rupee in terms of goods is artificial in so far as it has resulted from an artificial limitation of currency, and temporary in so far as it does not appear to have affected services. It is urgent in the interests of the country that this 'deflation' must cease, and a provision be made for an automatic increase in currency in accordance with the needs of commerce and industry." Do you agree that the rise in the rupee has resulted from an artificial limitation of currency?—I think that the value of any currency depends ultimately on the supply. It is supply in relation to demand.

10,479. I am afraid I have not been able to follow you?—The rise in the value of the rupee is due to its being less abundant in relation to the demand than it would have been if there had been more of it. It is exactly the same as has happened in England for example in getting back to the gold standard. You may say that the return of sterling to the gold standard is due to an artificial limitation of the supply of the former.

10,480. Now let us look at it from this point of view which I think would be easiest understood. If deflation was really required by the country or if the country really needed deflation the deflation would be made by the direct method available to you, namely, by offering reverse councils. You stopped that and you deflated without any method it is said?—I do not agree that the offer of reverse councils is the only possible method of deflation.

10,481. It is the only one by which you can accurately gauge whether deflation is needed by the country or not?—I do not agree at all. You cannot accurately gauge whether deflation is needed by the country by any method whatever.

10,482. Then does it remain at the sweet will of the person or persons managing the currency to decide whether deflation is necessary (or called for) or not?—It will always remain at the will of some one or somebody.

10,483. Then the automatic part of it is unnecessary?—It cannot be absolutely automatic. As I say it depends on the discount policy of the Central Bank. With the most automatic system, the discount policy of the Central Bank is the key to the successful working of the system, however automatic.

10,484. Well where you have no Central Bank and no discount policy as in India as she was between 1921 and 1924, don't you think that the only correct method of gauging whether the country either could stand or needed deflation is to offer reverse councils?—No, I don't.

10,485. And you therefore then would not agree, I take it, that the limitation of currency was an artificial method?—No, I would not agree with it in that form.

10,486. Could you tell us why, then, the Government of India did not offer reverse councils in order to test whether the commercial community really needed deflation?—Because I do not think it would have tested it.

10,487. But I thought that was the direction in which you proposed to perfect your gold exchange standard scheme?—You could not offer reverse councils unless you had some fixed figure. You had not got any fixed figure of exchange except two shillings to the rupee. If the two shillings ratio which stood then was the ratio for which you were working, there is not the least doubt that there was a very large excess of currency in the country over what was necessary in order to secure a ratio of two shillings to the rupee, and a very large amount of contraction of currency would have been necessary in order to bring about the two-shilling ratio. But if you assumed, as I did, and at any rate as the Government of India have done for the last three years, that the two shilling ratio was not the one at which they were aiming, then, unless you had some other ratio already fixed at which you were aiming, it was impossible to offer reverse councils or have any definite policy of deflation. You cannot have an automatic policy until you have got your rate of exchange fixed.

10,488. Exactly; I follow your point, and I would then only ask whether if there was any effective ratio on the statute you would consider it imperative not to deflate without offering reverse councils?—I do not think that actually offering reverse councils would be the thing, but something having an equivalent effect, yes.

10,489. But I thought when you suggest putting it on the statute under your perfected system of the gold exchange standard, that that would be the most natural method of deflation?—What I suggest is not offering reverse councils, which is really offering drafts on the India Office, but what I do suggest is that the Imperial Bank should be required to sell foreign exchange at a minimum rate by themselves.

10,490. Something corresponding to reverse councils in our present scheme, imperfect as it is?—Something corresponding to that.

10,491. Yes, that is why I mentioned reverse councils, because you have nothing corresponding to it now except in the reverse councils?—An equivalent method is the transfer of securities from the paper currency reserve in London to the Secretary of State's balances and a corresponding transfer here.

10,492. And cancellation of notes here?—Yes.

10,493. Do you think that our resources, Sir Basil, are ample enough to prevent any depreciation of exchange from 1s. 6d. in case of—I will name the five heads that I have:—

(i) adverse balance of trade;
(ii) scarcity or famine in India;
(iii) disturbance of credit abroad;
(iv) slump in gold prices in the world at large and a relative fall in world prices as compared to Indian prices; and
(v) unrest in India causing withdrawal of capital.

Should any two of the causes enumerated above combine in any one year, do you not apprehend a severe demand on the resources of Government which would tend towards the downward course of the exchange?—There is not the least difficulty in maintaining exchange at whatever rate you might fix,

provided it is reasonable, subject to your discount policy being right. It may mean a very severe amount of stringency in the money market at certain stages, but provided you face that I do not think there is any great difficulty in maintaining your rate, whatever you may choose to make it. I think that it is ultimately simply a question of your policy in regard to making rupees scarce or otherwise. It can be done by the credit and discount policy of the Central Bank.

10,494. I understood from your evidence at Delhi, Sir Basil, that no justification is necessary for retaining the 1s. 6d. rate beyond the fact that Government have succeeded in maintaining it for a year, and that justification, if any, will have to be for altering the rate?—Yes.

10,495. The imperfect gold exchange standard under which we have been working till now, do you not think that it discounts materially the *de facto* rate because the methods by which the *de facto* rate was reached were methods which imply complete mismanagement?—I do not see the connection. My reason for thinking that the 1s. 6d. rate does not require to justify itself against any attacker is that it is the rate which has been in force for nearly a year and a half. The fact that that rate was reached as a result of particular action does not seem to me to affect the issue at all.

10,496. It is contended that that rate was not reached by either methods or immediate circumstances which were natural, as we admit that the gold exchange standard till now prevalent is imperfect?—I do not think that it was reached by methods that were particularly unnatural. As I say, unless you had a fixed rate you could not have reached it by any method.

10,497. Therefore, the unnatural part came in with the ineffective rate on the statute for the last four years?—The unnatural part came in with the rise of silver above its bullion value. From that moment onwards the ratio which was natural was divorced from the pre-war rate and you did not have a new one till the Babington-Smith report came out. That new one was not successful, so you really had the same difficulty of the divorce of the rupee from any fixed rate continuing till now.

10,498. The circumstances lent themselves to the unnatural handling of it, irrespective of blame to anybody?—The circumstances themselves divorce the rupee from its moorings and it has never been moored since, and as long as the rupee remains divorced from its moorings it cannot be at any natural distance from those moorings because they do not exist.

10,499. Would not the rupee have stayed at its proper ratio if the authorities had wished it so?—When the authorities had decided what the proper figure was.

10,500. Therefore, the unnatural part was that the authorities did not decide what the proper figure was?—The unnatural part was that there was and there is no proper figure until this Commission has reported.

10,501. (*Sir Purshotamdas Thakurdas.*) I understand that the Bank of England is responsible to buy and sell gold, without limit of amount, within the gold points?

10,502. (*Chairman.*) The minimum amount for the sale of gold?—Subject to a minimum.

10,503. (*Chairman.*) There is no maximum.

10,504. (*Sir Purshotamdas Thakurdas.*) I was thinking more of the maximum. Now if the Imperial Bank is to undertake a similar obligation, to sell either gold or sterling without limit within the gold points, do you think the Imperial Bank have the resources, which by experience have been found to be wanting in the case of the Government of India before now, without sterling borrowings?—I believe their resources are ample enough for them to undertake the obligation at the present time. So long as the Government of India have a very large programme of capital expenditure on new development involving considerable capital expenditure outside India, the question of sterling borrowings or external borrowings by the Government of India will arise from time to time inevitably, but I do not think that the resources at present available in the reserves are by any means insufficient to enable the obligation in question to be undertaken at once.

10,505. You do not think that it might compel the Imperial Bank to borrow in London in order to carry out its obligations?—I do not think so. They might find it convenient to do so from time to time, rather than actually sell some of their sterling assets to borrow on them.

10,506. And if they had to borrow, if they were compelled to borrow under certain circumstances, do you think they could borrow as cheaply as the Government of India?—Probably, yes, on security. I do not contemplate their having to borrow otherwise.

10,507. The Government of India can borrow without security?—Yes, at least without specific security.

10,508. The Imperial Bank will not be able to borrow ordinarily without security?—I do not suppose any bank can.

10,509. To that extent the Government of India's credit is better?—The Government of India has a different kind of credit; but I do not contemplate any circumstances arising in which the Imperial Bank would require to borrow without security. It is almost inconceivable.

10,510. (*Sir Reginald Mant.*) Sir Basil, I have only one question to ask you in connection with what you have said about paragraph 13 of Mr. Denning's memorandum, namely, the method by which gold will be forced into the country; you said, I think, that if the exchange banks were forced to import gold they would probably sell it to the bullion dealers in India. Now, we have been told by Marwaris and others connected with the bullion trade that India had recently been importing as much or even more gold than she could consume?—Yes.

10,511. Now, if the exchange banks were to sell their gold to the bullion dealers the only result would be, would it not, that the imports on private account would be correspondingly reduced?—The assumption is that there is an extra demand for gold for conversion of these hoards of silver rupees into gold, a demand which is not at present in evidence, though it must be assumed to be latent. There will be this extra demand in our assumption which must be met by an extra supply. If the extra demand does not arise the extra supply will no doubt not be imported.

10,512. The demand would only become evident or cease to become latent if you took some steps to demonetise the rupee?—The assumption, I think, is that you will have announced as your policy a policy that you will ultimately take away the unlimited legal tender privilege from the rupee, which is rather a different thing from demonetisation, and that that announcement will make the holders of rupees more inclined to exchange them for gold than they have been hitherto.

10,513. So, the net imports of gold into the country would not increase unless rupees came out of hoards?—Unless these hoards exist and unless the holders of them set to work to convert them into gold, then there will be no extra demand for gold.

10,514. And then your system would not bring in any more gold into the country?—It would not bring in more gold into the country on private account, but it would have the result of converting your sterling securities in the currency reserve in England into gold held in the currency reserves in India.

10,515. Then the exchange banks would under that assumption have to bring their gold to the treasury here?—Yes; they would have to take their gold to the currency office.

10,516. (*Sir Maneckji Dadabhoy.*) Assuming that we go back to 1s. 4d. ratio, you have pointed out that there would be a deficit in the Budget. We

have been told by some witnesses that the Government are financial bookies and that they have no right whatever to make profits on exchange. May I know your views on that aspect of the question?—This is a compliment that I do not remember being applied to me before; I am not sure that I am ready at the moment to answer it. In normal circumstances it is most desirable that exchange should be stable, and if exchange is stable any profits on the exchange that may be made will be naturally quite small and incidental to Government's operations; but I think that in so far as Government have to undertake exchange operations, such as every Government has to undertake, when it is paying money abroad, it is entirely legitimate to try and do it at the best possible rate.

10,517. Then I understand you to say that it is a perfectly legitimate source of revenue to make money by exchange?—It certainly is entirely illegitimate to manipulate exchange in order to make profits for the Government; but it is entirely legitimate to try and do your exchange operations, whatever they may be, at the best rate possible for the taxpayer.

10,518. We have been also told that this deficit in the Government revenue can be made up by increase in customs duties. You have answered partly in reply to Sir Purshotamdas, but I would like you to make the position clear. What will be the position in the internal economy of such increase in the customs duties?—The suggestion is not, I think, that there should be an increase in the rates of custom duties, but that the result of lowering the exchange value of the rupee will be to increase the rupee prices of imported articles, and that since those imported articles are taxed for customs purposes *ad valorem*, an *ad valorem* tax will bring in more money. As soon as the adjustments following on a change in the exchange rate have been completed, I do not think the economic position of the country is in any way affected. Temporarily the effect of a falling exchange might be a considerable reduction for the time being in imports.

10,519. We have been also told by some witnesses that as the selection of the ratio lies between 1s. 4d. and 1s. 6d., and as the adjustments have not been fully completed, we ought to take the mean; what is your view on that?—It seems to me nonsense.

10,520. There is no soundness in that argument?—I cannot see any rhyme or reason in it.

10,521. Then I draw attention to paragraph 224 of your evidence where, in reply to this question by the Chairman, "And the consequential question as to the method by which the bank would pay for the privilege of note issue," you said, "that is, of course, to some extent, dependent on the particular system adopted, though it is to some extent independent. But it does raise the question of the reconstitution of the bank, because one possible method would undoubtedly be to make Government in some form or other a shareholder in the bank." Will you please indicate if you have any suggestions to make in which form Government should be made a shareholder?—I do not think I can take my evidence on that point further than it was taken last time, until there is some concrete proposal before the Commission.

10,522. You have no concrete proposal to offer on the subject?—Not in a definite form.

10,523. Because it is a very difficult question to make Government a partner in the bank at this stage and a shareholder in the profits without in a way depriving the shareholders of their legitimate share of the profits?—I believe that all interests concerned can be adjusted with reasonable consideration being given to the interests of all, by some arrangement which would no doubt stereotype the rate of dividend received by the shareholders at something about the present figure and give the Government a share in profits up to a certain point subject to the building up of an adequate reserve. There are many precedents in the statutes and the arrangements between Governments and the central banks in various countries, and as soon as a decision has been reached as to the major question, I believe that the application of those parallels to the Indian case will be found, I will not say at all easy, but quite capable of solution.

10,524. (*Sir Alexander Murray.*) Sir Basil, we have been told in connection with this increase of exchange to 1s. 6d. that all the adjustments have not been completed, and in particular wages have been referred to as an item still requiring adjustment. Now, I take it that wages are adjusted in accordance with the cost of living, speaking generally, and increases of wages are given to keep pace with the cost of living. That is the fact presumably that industry and Government and everybody else has in view when increases of wages are given?—Yes; increase of wages, in a period when prices are changing rapidly, is influenced mainly by the question of the cost of living. In more normal circumstances other factors than merely cost of living come in; because, if cost of living is the only consideration, that really means a stereotyped standard of comfort of the wage earner for ever at one particular level.

10,525. Quite true; taking 100 as the cost of living index figure in 1914 and to-day's cost of living figure at 153 (the latest that we have here), that is an increase of 53 per cent.; and you would allow also for an increase in comfort and other things some margin. What allowance would you make for that?—I should not be prepared to give a figure at present.

10,526. We have had it in evidence that on this side of India the increase in wages in the jute mills was only 50 per cent.; in the coal mines it has been said that it was less than 50 per cent. Now in view of the fact that the cost of living index number is 153 and that the wages increase on this side of India is only about 50 per cent., would you say that the adjustment is more or less complete?—It looks in that case as if the wage earner had got the worst of the bargain and that he should have got higher wages.

10,527. How much more?—It depends entirely, I suppose, on the individual case, on the question whether his efficiency has been improved or gone back, and to what extent it is fair that the wage earner should bear in the form of reduction in the standard of comfort some part of the extra charges due to the war.

10,528. Now, turning to the Bombay side, taking the pre-war index figure at 100, we have been told that to-day's level is 231; that is to say, there has been an increase in wages of 131 per cent?—What is the increase in the cost of living?

10,529. From 100 to 153?—It looks here as if the wage earner in that case had dealt with less clever employers than on this side of India.

10,530. But taking your own suggestion that there must be an increase in the standard of living apart from the increased cost of living, what will you say, keeping in view the difference between cost of living to-day in Bombay and the increase of wages in Bombay, the cost of living having gone up by 53 and the wages having gone up by 131 per cent.?—If this is really the fact, it seems to me that the probability is that the Bombay millowners are paying an unnecessarily high wage; but I must confess the statistics that I have had do not suggest to me that there has been any appreciable increase in the real wage of the Bombay mill-hand from 1914 to the present day.

10,531. The figure I am giving you is the figure that was given in evidence on behalf of the Millowners' Association in Bombay by Sir Victor Sassoon?—I had figures which ultimately came from the Labour Office which suggested that the increase in the real wage of the Bombay mill-hand at the time, in September 1925, when the strike first broke

out was at most 11 per cent., so that a reduction of 11½ per cent. in wages practically brought him back to the real wage of the pre-war days.

10,532. Could you perhaps find the figures? Because the figures I am quoting are figures from the Labour Office in Bombay and the figures from the Mill Association in Bombay?—I will see if I can get those figures and put them in.

10,533. But assuming that the figures we have got from the Mill Association are correct and that the wages are to-day at 231 as against pre-war 100, and the cost of living is only round about 152, would you suggest that it is a good argument for the people in Bombay to use that, unless exchange is reduced to 1s. 4d., they cannot put pressure on their workers to reduce wages into closer relation with the cost of living?—It still remains true that, if the wages are higher than the industry can stand or ought to stand, the direct method of a reduction of money wage is a preferable method to the indirect method of trying to conceal from the worker that you are trying to reduce his wage by reducing its value.

10,534. But how would you arrive at the amount of wages that an industry can stand?—I think I should probably go to Sir Alexander Murray and ask him.

10,535. Well, Sir, I merely wanted to get your opinion as to whether, in view of what the employers on this side of India have paid in the way of increased wages since 1914, and in view of what has been paid in the mill industry on the Bombay side, whether it is a sound argument for Bombay people to use that the increase of exchange to 1s. 6d. has adversely affected them from the wages point of view?—I think that probably it is true that the recent movements in exchange, coupled with the arrangements they had made with their workers, had tended to make their charges for labour rather higher in relation to the cost of production, rather a larger proportion of the total cost of production then they were before.

10,536. It has also been suggested to us that Government themselves increased the wages of their officers and men and are not now reducing them in keeping with the reduction that might be necessary in view of the increase in exchange. In reply to Sir Purshotamdas, I think you said that they had not given as much of an increase in wages as would have been justified probably by the increase in the cost of living at the time?—Yes.

10,537. Now, I see that the cost of living was, the highest figure we have here is—in 1920, 190, in 1921, 177, in 1922, 165. Now if the cost of living has dropped from these figures to 153 and you adjusted your wages in keeping with the cost of living at the time I have quoted, then there has been an increase in real wages now?—Certainly the recent fall in the cost of living has brought about an increase in real wages as compared with what it was two or three years ago.

10,538. So that even with exchange at its present level, the people to whom you gave increases are relatively better off than they were two or three years ago?—Yes, they are better off than they were two or three years ago, but whether they are relatively better off than they were in 1914 is another question.

10,539. Can you say how much you increased?—I have not got the statistics with me. It varies in various cases, but I am quite sure that none of the increases correspond to what the Bombay mill-owners claim they have given to their mill-hands.

10,540. (*Mr. Preston.*) Sir Basil, might I ask just one question in connection with the suggested import of gold with which we are dealing? When the exchange banks require additional currency for seasonable requirements the method hitherto has been that you have sold what is known as excess councils, that is councils beyond your home requirements?—Yes.

10,541. And we simply tendered you gold funds in London. You credited them to the paper currency reserve and in the ordinary course you invested them. So that the securities in your paper currency reserve on the other side increased according to the amount of extra councils?—The increase has not been so entirely automatic.

10,542. Well, shall we say generally speaking?—But if at any moment the Government of India sell sterling to an extent more than is required for its own balances in London, it has as a matter of practice treated these purchases as being on behalf of the paper currency and issued currency against them in India.

10,543. Yes, that would be a set-off against them. But what I want to make clear is this that really speaking the method that brings gold to India will practically speaking be identical with that which buys excess councils. As we tender gold to the currency office, you give us the equivalent in local funds as you did when we bought excess councils?—Yes.

10,544. (*Chairman.*) Mr. Murray, a Managing Governor of the Imperial Bank, suggested in his evidence that the most satisfactory method of settlement between the Imperial Bank and the Government in reference to the transfer of the note issue would be that a minimum dividend should be guaranteed to the shareholders, and that the Government should take the whole, or the majority, of the balance of profits after an adequate provision for reserves. I rather gather, Sir Basil, that your opinion moves in the same direction?—I would not say the whole of the balance as I think that you ought to have a careful arrangement for some going into reserve. Yes, I agree generally. I stated when I was previously examined that I had at the back of my mind a preference for a method of settlement between the Government and the Bank which took the form of a share in the profits rather than the form of direct payment for particular services. Such study as I have had time to give to the matter since then confirms me in my preference for something in the form of a profit-sharing arrangement.

10,545. (*Chairman.*) I have no further questions to ask. The Commission is very much obliged to you indeed, Sir Basil, for your further assistance, and apologises for any inconvenience which may have been caused to you by coming down to meet us here.

(*The witness withdrew.*)

TWENTY-EIGHTH DAY.

Friday, January 8th, 1926.

PRESENT:

THE RIGHT HON. EDWARD HILTON YOUNG, P.C., D.S.O., D.S.C., M.P. (*Chairman*).

Sir RAJENDRANATH MOOKERJEE, K.C.I.E., K.C.V.O.
Sir NORCOT HASTINGS YEELES WARREN, K.C.I.E.
Sir REGINALD MANT, K.C.I.E., C.S.I.
Sir MANECKJI BYRAMJI DADABHOY, K.C.I.E.
Sir ALEXANDER ROBERTSON MURRAY, C.B.E.
Sir PURSHOTAMDAS THAKURDAS, C.I.E., M.B.E., M.L.A.
Professor JAHANGIR COOVERJEE COYAJEE.
Mr. WILLIAM EDWARD PRESTON.

Mr. G. H. BAXTER, Mr. A. AYANGAR, } (*Secretaries*).

Professor C. J. HAMILTON, called and examined.

10,546. (*Chairman.*) You are a Master of Arts and a Professor in the University of Patna?—Yes.

10,547. What is your Chair in the University?—I am Professor of Economics at Patna.

10,548. How long have you occupied that position?—Since 1919.

10,549. And before that?—Before that I lectured in the Department of Sociology in London and then I lectured at Cambridge, and I was a Professor at Cambridge for two years.

10,550. You have been good enough to furnish us with a brief memorandum,† in which you have put forward the main outlines of your recommendations upon the subject of our reference, which perhaps you will be willing to expand to some extent in the course of our discussion this afternoon?—May I say that this note which I have submitted was written under circumstances of considerable pressure? I had just returned from England, where I had not seen the terms of reference of the Commission, nor had I known that I should be asked to give evidence; so that recently I have not been keeping up-to-date with the statistical aspect of the matter, for example. Secondly, after my return to Patna I had no time whatever to prepare a note, and have therefore written my note in a few hours without any books or works of reference of any sort, so that I feel it is probably extremely imperfect and deals only with one or two points. Would it take up too much time if I submitted a very brief statement that I have since written on one or two points not referred to in this?

10,551. Not at all. Please read it.—(*The Witness read his additional statement.*)*

10,552. In your original memorandum, paragraph 4, you say, "Having regard wholly and solely to the economic advantage of India I believe the balance of advantage is largely on the side of the exchange standard." Is that still your conclusion?—Yes. It is very certainly my conclusion if I confine my judgment entirely to what I may call the pure economic merits of the case. As I have already said I attached considerable importance to the desire on the part of the Indians that they should have a gold currency.

10,553. When listening to your supplementary memorandum, I understood there was a passage to the following effect, that the gold standard should be preferred in deference to Indian sentiment?—I think it is qualified. I said that unless there can be shown to be a very decided balance of advantage in favour of the exchange standard the gold standard and currency should be preferred in deference to Indian sentiment.

† Appendix No. 47.
* Printed as an Appendix to Professor Hamilton's oral evidence.

10,554. (*Sir Maneckji Dadabhoy.*) Before that you have stated that it should be in compliance with the Indian sentiment?

10,555. (*Chairman.*) In paragraph 2 of your memorandum, I was not able to follow exactly what is the final conclusion at which we should arrive from your statement. You say: "Is one to recommend a course of action because it is desirable that the Indian people should determine their own economic policy, or should one be true to the results of economic reasoning," and you say that the latter course is essentially preferable?—That is to say, my opinion I think is this: that supposing the two cases showed a smaller balance of advantage in favour of the exchange standard, while Indian sentiment was very strongly in favour of gold currency, then I would say, sacrifice the relatively small advantage. If on the other hand, I feel that the advantage in favour of the exchange standard was really considerable and that probably in the course of a not very long period Indian opinion would be converted to recognise that fact, then I should maintain that it was the duty of anybody deciding to recommend that policy which was economically preferable to a large degree.

10,556. The considerations perhaps seem rather to involve a balance between economic reasoning and a consideration of sentiment which you deprecate in one passage in your memorandum. Let me ask you, after weighing all the pros and cons, which standard do you believe to be that which should be adopted?—Both from the point of view of Indian desire and the point of view of economics?

10,557. When a decision has to be made all considerations have to be taken into account. Ultimately a decision has to be made?—I should sum up myself by saying that I strongly believe that the exchange standard is preferable to the gold standard.

10,558. In arriving at the conclusion that the exchange standard is preferable, you have given a very clear account of the pros and cons. I understand you lay much stress upon the suspicion felt of an undue element of management in the currency system?—I lay stress on what?

10,559. You lay stress, and you agree that stress should be laid, upon the currency system being as free from management as may be in order to encourage confidence and allay suspicion?—I do certainly hold that. At the same time what I was chiefly thinking of, in my note, was that the suspicion now in the minds of Indians regarding what they call a managed currency is unjustifiable because in my view no currency system, when you include under the head of currency the provision of representative money and all the rest of it, can possibly exist without a large measure of management. I think that

the trend of events in India seems to be in the direction of transferring a good deal of the "managing" function from Government offices to banking institutions, but the management will remain.

10,560. In the first place, the transfer from officials to bankers would, in your opinion, encourage confidence that whatever element of management there was in the system was properly controlled?—I am not at all sure that it would.

10,561. The question is, would it encourage the belief that it would?—I say I am not at all sure that it would. What I think, as far as I can visualise the matter, is that it would probably tend to conceal the element of management and in that way the part of the currency system which was obvious and more or less in some way visualised by the public would appear much simpler. To that extent perhaps it might encourage confidence.

10,562. Do you think that the people of India would have more or less confidence that, in so far as management is necessary, their currency was properly managed if the control was in the hands of a Central Bank rather than in the hands of Government?—I personally don't see any reason why that should give greater confidence or sense of greater confidence. It may be so. I am afraid I see no reason why it should be so.

10,563. In a very interesting passage in your supplementary memorandum you deal with the position as regards hoarding and the opportunity of the people to obtain the gold which they require. I understand that your point there is that, in so far as gold is required by the people of the country, it can be obtained with equal facility and be no dearer under an exchange system than under a system based upon a gold currency?—I was assuming in making that statement that the exchange standard included some administrative provision by which you could in practice get gold currency easily. That I take it is not a necessary part of the gold exchange standard; but assuming that it were so, as it existed before the war for example, that is broadly my opinion.

10,564. Is it in your opinion desirable that an exchange standard should be accompanied by a provision that a gold coin is to be legal tender, and that gold is to be minted for holders of bullion into the legal tender gold coin?—No. I think from the standpoint of pure economic reasoning such a provision is a disadvantage. Obviously it seems to me, the two chief advantages of the exchange standard being, as I have suggested, economy on the one hand and greater security on the other, the greatest economy is achieved when you do away with an expensive currency such as gold to the greatest extent. In so far as you facilitate gold circulating it seems to me to detract obviously from its economy. To that extent the trend of development before the war, on the one hand of developing the exchange standard and on the other of giving the people the currency they require, was a compromise, a sacrifice of the purity of principle.

10,565. You dwell upon the disadvantage that, in so far as gold passes into circulation, it is an expense to the country. What is your opinion about the contention that having gold in circulation under those circumstances also reduces the elasticity of the currency of the country?—I am not sure that I follow the suggestion in your question.

10,566. The suggestion is this, if I may make quite clear what the contention is that has been advanced. Supposing the whole of your currency is in notes, then any provisions for seasonal expansion cover the whole of your currency. Supposing half is in gold, then the provisions cover only half the currency. Therefore the more the gold the less the elasticity. Would that be a serious consideration as regards putting gold into circulation?—Well, I am afraid I do not see the force of the original argument. If you have a currency made up half and half of gold and notes, and the total of your circulating medium is x at any moment, when it has to be $x + n$ at some other moment, whether the currency consists entirely of gold or partly of gold and partly of notes or entirely of notes does not seem to me to affect the quantity of additional currency that may be required at a given time. If you suggest that people are holding their sovereigns, not as currency, but really withdrawn from currency in the form of hoards, then the question is different. But at any rate it merely means this, that your currency with gold in circulation at the moment of departure, so to speak, is not x, it is x minus the amount which is demobilised as currency. Whether in a time of stress it would come out from its hiding place and become currency again is perhaps a debatable question. It probably would; and that, I think, has been advanced as a reason why it should be more elastic, that the gold element would give greater elasticity.

10,567. Can it make any difference to the elasticity of a currency whether a hoard is held in the form of gold, or rupees, or in any other form?—It seems to me that it might do so in so far as people hold resources which on the one hand are immobile and on the other hand are mobile. If they hold gold ornaments or silver ornaments which cannot readily be converted into currency, then when some time of need arises I take it they have to go to the money-lenders and get 50 per cent. of the value of this property, and that 50 per cent. is coin, so to speak. If the other system prevailed they could coin the whole lot of it.

10,568. I understand you arrive at the conclusion that, as regards the desired purpose of encouraging the habit of investment for making a better use of savings than keeping them in the form of a hoard, there is nothing much to choose between the two systems?—I do not think so. I have asked quite a large number of Indian economists with whom I have come in touch for the reasons for the opinion that exists that it would make a greater difference, and so far as I have been able to learn they do not rest upon any very sure foundation. It is always stated that it would be so, but I have never yet been shown any special reasons or any steps by which the result would come about. My own feeling is that the immobilisation of wealth, in other words hoarding, is mainly the result in a conservative country of long tradition and practice and so forth. On the other hand, not only the backward development of banking, but the lack of any desire to use banking facilities and unfamiliarity with banking facilities—I think those are by far the greatest reasons, and I do not think the movement towards the investment of hoards will be greatly accelerated. I admit there is something in its favour, but I cannot see how it will profoundly alter things.

10,569. The case might perhaps be put in this way as briefly as may be, that security, as you tell us, is the underlying need of the saver in India, and to hold gold gives him that security in his belief?—Yes.

10,570. Having gold, before he will part with it he must be convinced that he can get it back again, and get it back not in gold's worth but in gold itself? The only way to persuade him to part with gold is to make him perfectly confident that he can get gold back, and the only way in which that can be done is by having a convertible internal currency, with gold available for circulation?—Those are the steps, I quite agree, and if that statement of the case were correct I should agree with the conclusion. But it does not seem to me to be correct, for this reason; that although it may be more difficult with a small holder of hoards, at any rate in the case of large holders, even though the banks or the Government are under no obligation to give gold on demand when paying back their deposits, it is perfectly easy, provided the currency system is in proper operation, to get full value in gold by buying the gold in the market.

10,571. Let us follow that in two steps. Supposing we have a pure exchange standard, without even any gold coin as legal tender or a Mint; the effect claimed for a gold exchange standard soundly based and operated is that it stabilises the gold value of the rupee, and therefore that the rupee is worth as much

in gold at one time as at another. Having the rupee, the holder can always go to the bazaar and buy gold for it. His power, therefore, of restoring his gold holding is no less under that system than under the full gold standard?—As I understand the function of the gold market and the bazaar there is practically no difference. What I have suggested is that if there is some slight saving by being able to demand either bullion or standard coins at the bank as compared with getting it through the bazaar, that saving would be very slight compared with the loss of interest which would be incurred by keeping the gold in hoards and not depositing it at all; so that the economic balance is strongly in favour of depositing.

10,572. Nevertheless, under such a system there is lacking a visible link between the internal currency and gold, the real link being comparatively an invisible one, that is, the convertibility of the internal currency into some medium of international payment?—Yes.

10,573. What is your opinion of a suggestion that, in order to make such a visible link under an exchange standard, the obligation accepted in legal form by the currency authority should be to sell gold bars to a minimum amount, not for export only, but for any purpose?—When you say "for any purpose," may I ask whether——

10,574. Without inquiring for what purpose it was required?—What I was going to ask was this: do you suggest in such a gold exchange system you would have the mint ready to coin your gold free of charge?

10,575. No; we are proceeding on the assumption that that is omitted from the system?—Then all I can say is that it seems to me quite clear that such an undertaking would be justifiable or not according as the ordinary gold market in the bazaar functioned well or ill. It would really be taking the function of buying and selling gold out of the hands of the private dealer and placing it in the hands of the public department; and if the private dealers are doing it fairly well now, why should they not go on doing it?

10,576. That would be correct with this limitation, that in order to save the Central Bank from having to do the type of business which it would be impossible for it to do, that is, small retail business in gold, there should be a substantial minimum?—I was thinking more of the large scale man; I admit that it might be more difficult for the man who wanted to buy a sovereign or two or three sovereign's worth of gold; he would probably lose a good deal, and therefore if you assume that the transaction is limited in any case to the man who is dealing on a fairly large scale, then I think what I said holds good.

10,577. I understand your reply is that it is not worth while because, why should the Government undertake to do the type of business which will be done, if they do not do so, by private enterprise?—I must admit that I am not myself very intimately acquainted with the organisation of the gold market: I am assuming that it is fairly efficiently organised and that you could buy and sell on very small margins and that therefore what you suggest holds good. I may be incorrect in my understanding of the working of the gold market, but I do not think there is any real difficulty that way.

10,578. In your opinion, supposing such an obligation were to be undertaken by the Central Bank and there was no question of any forcing of rupees out of hoards by such a provision as a limitation of the legal tender of the rupee, would it result in any very great demand for the conversion of rupees in hoards into gold?—I cannot myself see that it would; I cannot see any clear reasons why it should.

10,579. I suppose one might say "if it is not done now, why should it be done hereafter?"—That is my felling.

10,580. Unless there is any new impulse?—Exactly; I see no new impulse. Of course we are living in times fairly close to those in which gold was not imported, and we have a certain leeway to make up; and possibly the publication of the grant of a new right may accelerate the pace at which people would exchange other forms of wealth for gold.

10,581. I think perhaps it might be as well to bring out the point which you emphasise in your original memorandum, and that is, as I understand, that you see nothing derogatory to India's status in a gold exchange standard?—Nothing whatever. I think that is an entire misapprehension due to the fact that public opinion is apt to be a generation or two behind what one might call expert opinion. Public opinion in this as in every other country is largely formed by a gradual percolation of such opinions as have been frequently expressed by great authorities in the past, like Lord Rothschild and others, that no currency is a good currency unless it is automatic or unless it has gold in circulation as an essential condition. Such statements are extremely common in documents which are now public property.

10,582. You say "It is quite indefensible to regard the loss incurred by the sale of Reverse Councils as a direct consequence of the exchange standard." You mean on certain occasions?—I was thinking of the one important occasion just after the attempt to maintain the rupee at 2s.

10,583. I rather gather that your meaning there could be amplified thus: that it was the result not of an exchange standard, but of a standard which was not perfected as an exchange standard or perhaps the working of which was not?—Exactly: I should say myself that the failure of the Indian currency system to some extent was obvious during that time; but the failure was less in degree than the failure in the English currency system: the one started from a gold gold exchange system and the other started from a gold standard system with gold currency. The breakdown was due to the general results of the war and no country in the world escaped a breakdown.

10,584. In your opinion has India ever had a true exchange standard? Let me point out the bearing of my question. It has been put before us in evidence that the Indian exchange standard was not a true exchange standard adequately protected, because, for instance, there was no legal obligation to sell the medium of international payment at the lower gold point and an agreed ratio?—I agree to that, and I do think that a satisfactory exchange standard must carry with it complete convertibility for purposes of international trade both up and down.

10,585. That convertibility must be based upon a defined ratio?—I think that is implied, although I do not see myself that logically it is implied; you might have a fairly wide ratio of exchange within which fluctuations were permitted.

10,586. May I raise that by a specific question? That is an interesting point in your memorandum. In paragraph (*d*) of your summary of opinions here you say: "India is a debtor country and not a creditor country in the sense involved in this controversy. The question of a normally favourable balance of trade is irrelevant." I am not sure that I quite follow the implications of that sentence?—What I was thinking of was this: that for example, in Keynes' book one of the reasons given in favour of an exchange standard is that it is more suitable to a debtor country. That point is often taken up in this way, that India for a period of years mostly has a favourable balance of trade and therefore it is said India is not a debtor country but a creditor country, at least it is not a debtor country in that sense. What I maintain is that the balance of trade, as measured in the statistics of imports and exports, showing an apparently favourable balance of trade in India's favour, has nothing whatever to do with the question at issue. I may be wrong, but as I read Keynes' argument it is this: One of the dangers that one has to protect oneself against is the danger of a sudden demand upon gold or its equivalent by any creditor. Suppose you have a war or threat of war, and people wish to realise gold; then the creditor country may demand the return of its re-

sources invested abroad in the form of gold; that therefore raises the question, not as to the normal balance of trade, but as to the balance of indebtedness, the balance of ultimate claims which one country has on another. Obviously India, it seems to me, has very much more foreign capital invested in its own borders than it has capital invested abroad, and therefore India is a debtor country in the sense raised in this discussion.

10,587. What is really relevant to consider from the point of view of this argument is that India is a borrower country and not a lender country?—She has a balance of outstanding debts and not a balance of outstanding credits. Besides, if I may suggest, is it not quite clear that no country can have a favourable balance of trade, in the sense which is so often suggested, except for a very short time? This is suggesting that India normally has a claim upon other countries which she can make use of in order to get gold for its banking purposes. That does not seem to me to follow at all.

10,588. The peculiar characteristic of India is, then, that although she is making money and saving money, she keeps those savings largely in the form of metals and borrows the capital which she requires for expansion from abroad?—Quite; of course if you assume that all hoards of gold are going to cease and that all gold that comes into the country can be utilised for banking purposes, for the moment, for a very short time, there would be an addition. More gold would go into the banks. As soon as that had happened the inevitable equality of imports and exports for a period would be established and you would be importing more commodities, other than gold; and therefore the balance of trade which seems to exist now would disappear in that sense.

10,589. Finally, in (*f*) you say: "The adoption of a gold standard currency would be costly, and would partly presume acquiescence on the part of the United States in parting with gold for a purpose that would cause a severe depression in her silver industry and a depreciation of her own stocks of silver." Have you had your attention called to a memorandum setting out certain suggestions for the introduction of a gold currency into India?—I think I have been sent a copy of it, but I am afraid I have not read it.

10,590. May I just put very briefly the outline of that scheme. The outline of the scheme, on which I wish to ask you one or two questions, is this. The object towards which India should finally work as regards its currency system is that of a fully convertible internal currency, that is convertible into gold, and gold as the standard coin available for circulation. Notes and rupees should be made convertible into gold. As regards rupees, there should be a transition period leading to a further stage when the rupee should be limited as legal tender and dethroned from the position of a standard coin; that the gold necessary in order to undertake this fresh obligation of making notes and rupees convertible into gold should be obtained in effect by closing down the sale of Council Bills for the purchase of sterling, thus keeping the gold point well up at or above the upper gold point and forcing the import of gold into the country, thus obtaining the necessary supplies of gold in order to obtain the full amount which would ultimately be necessary to raise credits in the world's gold centres and to support the operation. It is estimated that in order to carry this scheme into effect, in the course of ten years some 103 millions sterling of additional gold would be required for India. That is an estimate based upon the number of rupees now in hoards which might be presented for conversion. Part of the funds necessary would be obtained by selling the rupees converted and by selling off the 90 crores of silver now in the Government's paper currency reserve. Have you been able yourself to form any opinion as to what the cost of such a measure would be?—No, I am afraid not.

10,591. Or have you worked it out upon any other basis?—A year or two ago I tried to work out the quantitative estimate but I am afraid that I have not recently done so, and I should not like to suggest any quantitative statements.

10,592. Assuming that the fulfilment of this policy would involve the sale of some 200 crores of rupees of silver in the course of ten years, would you be able to express any opinion as to the effect of that upon the world's silver markets?—Over ten years?

10,593. Yes?—Would the unloading of the silver be regular and periodical or would it be at the discretion of some authority?

10,594. It would be at the discretion of the currency authority in control of the operation, but it is calculated that, in order to fulfil the estimate of the cost of the scheme and so on, the operation would have to be spread over ten years?—Yes; but wouldn't it make trouble if it were known that you were under an obligation to convert so much every month or every three months in ten years?

10,595. On the question of policy, I do not think it is contemplated that there would be any tying of the hands of those who are carrying it out that there should be any announcement that so much silver would be sold every month or every three months?—That would have a very different effect on the market.

10,596. That would be most imprudent?—That is why I asked the question. Well, it seems to me that my opinion on that point is probably of very little value because I don't know anything about the organisation of the silver market. What little I have heard is rather to this effect; that the silver market is concentrated in rather a few hands and that it would be quite easy, or might be quite easy, to bring about a combination so that if they knew that for a period of ten years large quantities of silver would come into the market at practically sacrifice prices if necessary—it might have a very profound effect. It rather turns on the extent to which the silver market is competitive or not, and that is a point about which I am not very well informed. But my impression is that it would be quite easy to control the buying price at least to some extent.

10,597. What you particularly call our attention to here is the question of the acquiescence by the United States in such a policy, which might be expected to depress their silver industry and depreciate any stocks of silver they hold?—I was of course arguing on the obvious lines that the United States is the outstanding holder of gold at the present time. If a very large sum of gold was wanted by India it would probably have to be obtained by negotiation with the United States Government. The United States might be quite glad to get rid of some of its gold. On the other hand, the United States is very much interested in silver, partly as the holder of a large silver reserve and partly as being a country in which the silver production is an important industry. It would therefore obviously provoke a good deal of popular comment in the United States, I take it, if it were known that she was conniving at an action which would throw upon the world's markets large quantities of silver and depress prices, and she might herself be forced, as she has been in the past, to take some action to revive the forward price of silver. I mean the Sherman Act for instance. That is only a line of thought which appeared to me worth suggesting.

10,598. Turning to the other side of the account, do you feel able to express any opinion as to the effect upon world gold prices of an additional demand, for Indian use, of some 100 odd millions sterling worth of gold spread over ten years, the first 50 millions being required pretty soon, and the second 50 millions being required in stages over the remaining ten years?—It seems to me quite obvious that it would exert a very considerable influence. I know words like "very considerable" are vague. But, for instance, when Germany in 1873 acquired 50 millions of gold in a short period in order to adopt the gold standard, it was regarded at the time as one of the most powerful influences tending to bring about a fall of gold prices

Whether it would have the effect of positively depressing gold prices depends, it seems to me, on whether one may expect normally a movement of prices in the other direction. That is to say, your increased demand for gold might merely counteract a tendency to rising prices. Some economists feel that in future—leaving out inferences as to the demand for gold—prices are likely to rise considerably, and they would like to see the demand for gold multiply so as to counteract that. Personally it seems to me almost impossible to prophesy. The possible reasons which may work for a fall of prices or rise of prices are many. I can see some reasons to expect a considerable rise of prices in future and some reasons that prices will fall, but which of these two opposite sets of influences will prevail I feel it impossible to say.

10,599. Might one fairly summarise your answer by putting it thus, that it is difficult, if not impossible, to foretell what the relation between the world's gold supply and the world's gold demand is going to be, but that such an additional demand as that for India to which I have referred would constitute a major factor in deciding the course of world prices?—Undoubtedly, that is exactly what I feel.

10,600. I understand that you are in favour of the transfer of the control of the note issue to the Imperial Bank if sufficiently centralised control over the policy of the bank be secured. Have you any definite proposals to make as regards the securing of that control, by what measures it should be established?—No. I am afraid I should not like to say. It is too much within a sphere of things with which I am not really familiar. I feel that a powerful element of popular control, I mean centralised Government control, is important. It is to some extent secured, is it not, in the constitution of the Imperial Bank? But whether it is at present adequate or in what way it should be increased, if necessary, I should not like to suggest. I was thinking when I wrote of a good deal of the reasoning which had been followed in America in developing the Federal Reserve system, and, as I follow that development, I think and rightly that they have laid a lot of stress on securing public control.

10,601. It has also provoked a good deal of criticism that the public control has gone too far in the direction of permitting political interference?—Quite so.

10,602. Nevertheless, I understand you consider that it is not within your province to make any more detailed proposals on this heading?—No.

10,603. Now let me finally turn to the question of the stabilising of the rupee and the ratio. I am not sure that I follow the opinion expressed in paragraph 3, where you say: "there are no immediate evils to be anticipated from leaving things as they are, provided that Government does not itself initiate changes from the prevailing exchange rate"?—What I meant was this, that Government holds such an important power at present over the exchange rate that it might exercise that power to force the rate up to 1s. 8d., 2s. or whatever point you adopt. I should myself think that Government would be wrong in attempting to use its power to force the rate away from the existing rate, assuming that existing rate to be the rate which the economic forces tended to stabilise.

10,604. Then, in short, you are in favour of leaving things as they are, in the sense that, whatever system is devised, it should accept the current rate as the rate at which the rupee should be maintained?—Exactly. Of course, I suppose there are arithmetical difficulties attaching to certain rates. I mean you might have to modify them slightly so as to get better aliquot parts or something of that sort. But apart from that it seems to me perfectly clear that any attempt to force the rate away from the existing rate either up or down would be attended by very serious and unnecessary evils.

10,605. One moment before we go on. As I understand it, the arithmetical difficulties in relation to the rupee and the pound sterling would only arise if the sovereign were to be a legal tender coin?—Well, they would arise, would they not, in some degree even if the sovereign were not a legal tender coin?

10,606. Apart from that, is there any difficulty in accepting such a rate as 1s. 6d., which is the existing rate, from the point of view of account keeping? Is it less or more difficult than any other rate for the purpose of cross calculation of accounts?—Well I should think it is a little less convenient than 1s. 4d. I do not know, but it seems to me that you can express fifteen rupees to the pound more easily than you can express Rs. 13 and a fraction or Rs. 12 and a fraction. It is rather like the question of a decimal system.

10,607. I think you expressed an opinion in favour of the current rate as against any other because of the disturbances which would be involved in introducing any other rate. Could you expand briefly what the feared disturbances are and what their evil consequences would be?—Well they seem to me to be the well-known results of an appreciating or a depreciating exchange which are all the more severe when these results take place quickly. In the first place, obviously, if you publish beforehand a statement that you are going soon to work to a 1s. 8d. rate, you introduce a speculative element into exchange dealings. I think if you suddenly announce that you are going to raise exchange to 1s. 8d., for example, people would immediately begin to deal in exchange for the purpose of sending it to England and bringing back according to the rise or fall of exchange, and you get a whole lot of operations of that sort. Then you upset of course the normal international price-levels, so that you affect importers and exporters, and it is unnecessary to refer to the bounty that is for a short time given to importers by a fall in exchange and *vice versâ*. I do not see any reason why you should give these bounties or impose these penalties on two different sets of the community. Then of course if you decide to raise the rate of exchange say to 1s. 8d. in a comparatively short time you would inevitably, it seems to me, depress Indian prices. That would affect all sorts of interest. It would rather tend to increase the the incidence of land revenue. It would increase the burden of indebtedness of the peasant, and so on. On the other hand if you were to depress the rate of exchange, of course you give bounties where you would impose penalties. You have a whole series of disturbances and, on the one hand unearned increments, and on the other hand unearned decrements, which it is one of the main objects of a currency system to avoid.

10,608. Referring to the seventh paragraph of your memorandum, am I right in understanding you are of opinion that there are some reasons worthy of consideration which point towards waiting for a period before an attempt is made to stabilise the rupee?—I think there is a great deal to be said for it. As I say, I am speaking of course perhaps without a minute knowledge as to the processes of stabilization by buying sterling and the rest of it, but I do not myself understand that they are accompanied by any serious difficulties. The one important argument in favour of waiting a little longer seems to me to be this, that if you are going to stabilize, you are going to stabilize in sterling, and the future of sterling is still rather uncertain. It appears to me quite possible that in order to maintain sterling on a gold basis, English prices may have to be considerably reduced. The policy of deflation may have to go further. If this is so, it would obviously affect the normal exchange rate current between India and England, so that supposing in the course of a year or two Indian prices were to remain, other things equal, unchanged, whereas English prices were to fall considerably, that would tend to bring about a new rate of exchange in India. In my view if

economic circumstances were moving rather strongly towards the establishment of an exchange rate a good deal wide of the rate which you had adopted, you might have to exert a good deal of counter-influence to maintain the rate which you had adopted. At the same time it would be wise, supposing you do anticipate a period of further instability in prices, particularly prices in England in relation to prices in India, it would be rather wise to have the double safety valve of a variable exchange and a variable price level instead of concentrating the whole of the effect on one of these two safety valves.

10,609. One cannot, of course, stabilise both exchange and internal prices. Your suggestion would seem to amount to this, that for a time you would allow exchange to vary in order that you should maintain a greater stability in Indian internal prices if necessary?—I would like to retain for a time the double safety valve. I do not want exchange to vary unnecessarily; I approve of what I may call the manipulation—to what extent it may be exercised I do not know—which is now helping to maintain a stable exchange rate, but if we found at any time that there were strong economic forces tending towards the reduction of Indian prices, and that that could be modified by a moderation of the exchange, I would certainly let the exchange rate move as well as let the price level move so as to divide the effect between them.

10,610. Let me fully follow your opinion. Is that a policy which you would recommend at any time? —I think myself I would recommend it for any country, at any time. To that extent I am a follower of Keynes.

10,611. Supposing the time had come when, with all prudence, you had adopted a perfected exchange standard and the central currency authority had undertaken the necessary obligations in order to maintain that exchange standard, that is, to buy and sell foreign currencies at the defined rate, even after that, supposing world prices were to move in one direction or another you would be prepared, as it were, to modify the machinery of the exchange standard to allow the rate of exchange to go in one direction or another in order to keep your internal prices stable?—Yes.

10,612. And this recommendation as regards the immediate future is only one of the probable effects of the general policy that you are prepared to recommend?—Might I perhaps put it slightly differently in this way, that I recommend inaction for a short further space in India, not with the idea that there will ultimately be a fairly wide margin of exchange, but because of the special difficulties that seem to me to stand in the way of stabilization now, which will be lessened after a year or two. The point which you put to me seems to me to be rather this, whether I am not in favour of a universal change of currency principle somewhat in the direction of what is commonly known as the tabular standard; in other words in currency legislation you should include a provision by which along with some index figure you vary your exchange rate. That of course, as I say, is moving in the direction of the tabular standard and I certainly agree with it.

10,613. You do agree with that?—Yes.

10,614. You would rather see a tabular standard adopted for India immediately than an exchange standard?—No, I think there are two or three difficulties in adopting a tabular standard for India immediately; first of all, the imperfect machinery at present existing for contraction, there is no satisfactory index number, and secondly perhaps it would be unwise for India to take the lead in an important currency development rather than some other country—I do not know, I have not thought it out really. Undoubtedly I think that is the kind of currency reform towards which the world will move in future.

10,615. Then your suggestion comes to this, does it not, that India should follow the tabular standard for a year or two until things settle down and then go on to an exchange standard, because there must be some kind of policy for the immediate future?—It does come to that I think.

10,616. Do not the difficulties due to the imperfection of statistics and machinery upon which to base your tabular standard apply with equal force to the immediate future?—No. I do not think so.

10,617. How soon would you allow exchange to go up and down at the present time?—I think you would have to have regard to the demand for currency and the movement of prices so far as you knew them, but I do not think you can be said to have a tabular standard although you are being guided by such influences as if you had it.

10,618. Would you trust the Calcutta index number as a safe basis for currency policy, and, if not, what would you trust?—I think at present you have to make use of the best index numbers that you have got.

10,619. What are the special difficulties in the immediate future which you foresee and to avoid which it would be worth while to wait?—As to the immediate difficulties, as I think I suggested, I feel very uncertain in my mind as to the course of sterling prices in the near future.

10,620. Do you foresee a practical possibility of sterling parting company with gold again?—There is a possibility I think, but I think it is very improbable. What I think is probable is that in order to maintain sterling on a gold basis, deflation in England would have to go further. In other words, sterling prices would fall, and if the exchange rate between England and India is purely a reflection of the ratio between the rupee prices and sterling prices, any fall of sterling prices would affect the exchange.

10,621. Assuming that sterling does not actually part company with gold, supposing the standard adopted for India be not a sterling exchange standard but definitely a gold exchange standard, would this movement of internal prices in England confront the Indian exchange with any difficulty?—I think so.

10,622. What is the nature of the difficulty?—To my mind it seems that it would follow from this that the greater part of India's foreign trade is with England, is in sterling, and therefore the exchange rate between sterling and the rupee depends upon these two price levels. Supposing you fix the Indian exchange in terms of gold and not in sterling and that then sterling prices remained the same, it would affect the exchange rate between London and Calcutta. The London rate would no longer be a sterling rate and it would be an important factor in determining the business between England and India.

10,623. Is it your opinion that internal prices in Great Britain have not yet adjusted themselves to the recent rise of sterling?—Yes; of course, the adjustment may come about by a rise of gold prices, I mean, the American prices.

10,624. You have no doubt followed the recent course of English internal prices?—Yes.

10,625. Do you expect a further fall?—I think it is very probable. I think it is by no means certain; because I think all forces tend to make it unnecessary. My own view is that at present the money cost having reached the point at which stable relations can be established between England and other foreign trading countries, one of two things is likely to happen: either foreign money costs will rise or English costs will fall. I understand that in Germany there is a very powerful movement in the direction of raising wages and so on, and that might cause prices to rise. The same thing might happen in France. You may get a rise of prices. But the adjustment must come in one direction or another. It is English costs that are too high rather than the other.

10,626. I observe that the prices in Great Britain, as measured by *The Economist* index number, have fallen from the index figure of 180 in December, 1924, to 165 last August, which I am afraid is the last figure which I have. Does not this suggest to you that, except for very minor adjustments, prices in England are now adjusted to the higher value of

sterling?—In many industries, no. I think certainly not. I think the great feature of prices in England at the present time is the want of true level. The Economist index number is the result of one set of prices, mainly articles of export and import, and I think they would show more prominently a fall than a large number of other prices for goods which are only for internal production and consumption. I think that probably exaggerates the extent of the real fall of prices.

10,627. Are there any other possible dislocations foreseeable in the near future which, in your opinion, make it prudent to wait?—There are, of course, the forces bearing upon the cost of gold. If a large quantity of gold, say 100 millions, is required by India within the next few years, a good deal of importance must attach to the commodity value at which that gold is purchased. Obviously, therefore, if the price of gold is likely to be a good deal higher in 10 years it will be wise for India, assuming that it is going to make this change some time or another, to buy it now.

10,628. What would be the effect upon India's foreign trade and India's requirements of foreign capital if, for a limited but indefinite period, it were to be known that there was to be no fixed point at which exchange would be maintained at any standard, and that it would be allowed to vary under the stress of natural forces only?—I should imagine that the foreign trade would go on happily and healthily.

10,629. In spite of the risk introduced into trade by the possibilities of fluctuations of exchange?—Is it not now probable that, in the absence of any clear reasons for expecting a movement of exchange in one direction or the other, all business transactions will be based on the assumption of the existing exchange? I do not see myself how businessmen or financiers who wish to make a profit by speculating in a rise or fall of change could do so at the present time.

10,630. I feel in a way that we are confronted with this dilemma, that either exchange is not going to vary under the stress of these natural forces, in which case it must stabilise at once, or it is going to have a tendency to vary, in which case all those additional risks that a varying exchange introduces into foreign trade will come into play?—Quite. But what I am suggesting is not that a definite and foreseeable movement of exchange will take place but that such a change may and will take place. It seems to me not the nature of change which is likely to be the basis of any widespread commercial transactions. If it takes place suddenly, it will have the disadvantages to which I have already referred. But you cannot avoid some evils following upon a change of relative international price levels. If you do not have your movement of exchange, as I have said, you have your movement of prices. The question is whether for a time you should not wait to see whether the trend of things is in the direction of the present rate or markedly away from it.

10,631. To summarise, in your opinion, in view of the possibility of fluctuations in world gold prices in the next year or two, India has more to gain during that period by a greater stability of internal prices at the expense of a possibility of less stability of the exchange rate?—Yes.

10,632. (*Prof. Coyajee.*) You favour the retention of the gold exchange standard in an improved form. But supposing it was decided to introduce gold currency, then there might be two courses of action open. One is to introduce it gradually and the other is to borrow a large amount of gold from abroad and put it into circulation at a stroke, and I would request you to consider the comparative merits of these two lines of policy. Might I make the suggestions in favour of either course of action? If a gold currency was to be established then two courses of action might be open. In the first place a large gold loan from abroad might be taken out and by that instrumentality the gold currency might be introduced in a short time. It has, however, been contended by some witnesses that there are greater advantages in a gradual introduction of the gold currency in India. I shall put to you some of the considerations. In the first place it has been argued that if we bring out the interest on the securities in our paper currency reserve and gold standard reserve only in the shape of gold, then in about a decade we might have a considerable amount of gold in hand and hence no sudden great demand might be made on the world's stock of gold and the difficulty of large borrowings would disappear. Would you agree that it is one of the advantages of the more gradual introduction?—Yes, just confining myself to simple yes or no. It seems to me that you cannot consider that by itself. There are other things, possible qualifications. Merely by itself, yes.

10,633. Another advantage might be suggested that while this preparatory stage is being conducted, a trial is being given to an improved form of gold exchange standard with the rupees in our hands, a line of retreat is kept open if the improved gold exchange standard is found to be quite satisfactory we might halt there. On the other hand, a shorter line of advance might be obtained towards a possible international gold exchange standard. Would you consider that an advantage of the more gradual introduction?—Your last question implies, does it not, that you are retaining the gold exchange standard?

10,634. It means that?—Are you putting gold in circulation in the form of coins?

10,635. We are opening a gold mint and people might import gold bullion and hand it over for coinage and in that way a certain amount of gold currency might be introduced?—Then would it not be the case that supposing it were necessary to retrace one's steps and go to a pure gold exchange standard or to the other standard, to the extent that the country already has gold in considerable circulation would be a complicating factor?

10,636. There is no difficulty about gold currency here?—Then the point resolves itself into this: whether keeping the gold exchange standard, you gradually accumulate a quantity of gold in addition to the existing gold standard reserve

10,637. Certainly?—Yes; I think myself that probably it would lead people to believe in the virtues of the exchange standard.

10,638. That might be so. So I have already suggested. Might I point out a possible third advantage? There are 90 crores of rupees in our various Government reserves. These rupees might be absorbed in the course of the preparatory stage in the ten years, or so, so that there might be no necessity to undergo a loss by selling them abroad. Is that another advantage?—Yes; I should think so.

10,639. Then a fourth possible advantage might be that the rupee hoards and the silver hoards which are now gradually being changed into gold hoards might automatically be completely converted into gold, during the preparatory stage, so that when the final declaration of gold currency comes and the dethronement of the rupee results, there might not be many rupees which would be brought forward and handed over to the Government for conversion?—Is that assumption compatible altogether with the one you previously raised, that you are going to absorb a considerable amount of rupee currency?

10,640. Yes?—You are going to absorb your 90 crores of rupee currency in the course of comparatively few years by waiting and so you get rid of the difficulty of having to melt them down.

10,641. Is not there parallel absorption of gold and rupees going on almost every year?—Yes; but to the extent that you are introducing, say gold currency over a period of years, just while you are waiting to absorb your silver currency you are making it more difficult.

10,642. Still to a certain extent both processes go on simultaneously?—Yes.

10,643. And finally the longer process of introduction presents a number of tests of public advantage and popular preference of currency. The opening of the mints is the first test of whether people do really

want gold currency, and then the option of convertibility, a period of option of convertibility, that is to say, Government if they like might give gold for rupees. All these are various tests of public demand and also of the nature and extent of the demand for gold currency in India and of its possibilities. Is not that an advantage of the slower process, these successive stages?—I am not quite sure on this point. You open the mints and mint gold and you give gold in exchange for rupees?

10,644. You open the mints and you coin bullion, and there is an optional convertibility, that is, Government may if they like give gold for rupees?—Could you not say whether they do or do not because it seems rather important?

10,645. The discretion might be left with them?—What I was thinking was where is the gradual nature of the process. If a gold mint is opened and if gold bullion is coined freely and if the Government give gold in exchange for rupees, how is that to be made gradual?

10,646. Because it will take a decade or so before the final stage is come to, the compulsory stage at which Government is bound to supply gold coin for rupees. There will even be a still later stage when the rupee may be deprived of its legal tender character. That will be the final stage at which we shall cut adrift from the gold exchange standard and embark on the high seas. So that there will be various stages for testing both our capacity for gold currency and the nature and extent of the demand?—It seems to me that if you opened a gold mint and you in practice offered to give gold in exchange for rupees it would be very difficult to keep control of the rate at which the conversion took place and therefore you would have to be prepared with almost the maximum quantity of gold at an early stage.

10,647. The rate will be the current rate, say 1s. 6d. Then people might bring in bullion if they liked at that rate?—Well that is the only difficulty that I see in making the thing really gradually.

10,648. (*Sir Purshotamdas Thakurdas.*) The gold exchange standard you recommend is in practice a sterling exchange standard?—Well I am afraid I have all along been going on the assumption that sterling is also gold.

10,649. But when sterling happens to be divorced from gold, the gold exchange standard you recommend for India will become a sterling exchange standard?—No, I think if I had to choose between a sterling exchange and a gold exchange on the assumption of the difference between the two that I should argue in favour of a gold exchange.

10,650. But in reply to the Chairman I heard you say with reference to your remarks in paragraph 5 of your statement that you recommended nothing to be done regarding stabilisation of exchange because you were uncertain of the course of sterling prices in London?—Yes.

10,651. If you prefer gold to sterling why have that apprehension?—I think that point was raised, if I understand you correctly, by the Chairman and I said that even if sterling were divorced from gold, any considerable change in sterling prices must react very powerfully on Indian exchange.

10,652. Would that reaction be any more in India than it could be in South Africa, for instance?—I think the proportion of trade between India and England is probably greater than in the case of South Africa, but I am afraid I do not know.

10,653. The proportion of trade between England and India as far as imports from outside are concerned is fairly large but as far as exports outside are concerned it is comparatively more in the case of foreign countries than in the case of the United Kingdom?—Is it not 50 per cent?

10,654. Yes, something like that. At any rate the import trade with the U.K. is much larger than the export trade, and it is the export trade that brings into India the money and relieves financial stringency. In spite of that fact would you recommend a sterling exchange standard or what might become a sterling exchange standard?—I have, I think, said that I should prefer a gold exchange standard, but I have been arguing all along on the assumption that the sterling exchange will be on a gold basis. If that is not so then I should prefer that India should be upon a gold basis.

10,655. In view of the uncertainty of the position, Professor, which you yourself apprehend, would not you recommend that a sterling exchange standard should be outside the serious consideration of this Commission?—I do not think I regard a departure of sterling from a gold basis as a probability in the reasonable future.

10,656. Then on what basis have you made this recommendation that we must not stabilise or think of stabilising exchange for some time still?—Because I think that English prices, in order to maintain a stable relation between sterling and gold are very likely to fall.

10,657. Even though the pound sterling may not be disconnected from the gold fine point?—Yes.

10,658. You have a preference for an exchange standard as against a gold standard on what I understood you to say was principle. Was my understanding of your opinion in that connection clear? On economic principle?—On the two grounds that I suggested, first that it is considerably cheaper, the ground of economy, and secondly on the ground of greater safety.

10,659. Greater safety, may I ask what you mean by that?—Economic safety. What I mean is this, that some of the larger disturbances that people sometimes consider possible and as likely to lead to a breakdown of the exchange standard would equally involve a beakdown of the gold standard. A gold standard is not a thing which cannot be disturbed or broken down.

10,660. Both are liable to breakdown under certain circumstances?—Exactly.

10,661. But would you agree as an economist, Professor, that the gold exchange standard needs greater management and manipulation and is liable to more manipulation than the pure gold standard?—My opinion is that if you include under the term currency system both the provision of legal tender currency and the organisation of representative money and the various management that is implied in the contraction and expansion of your currency, if you include all that, there seems to be no more management involved under a gold exchange standard than under a gold standard with a gold currency.

10,662. Yes. It has been said that in order to safely trust the exchange standard you must look out for what has been called a superman. Do you agree with that?—If that is so, I think it would stand condemned—if it were true that it depended on the appearance of a superman.

10,663. (*Sir Purshotamdas Thakurdas.*) Would you agree with this quotation that I am going to read to you: " A further objection in principle which seems to me to be a sound and very serious one is that such a scheme "—the scheme referred to is the exchange standard*—" would involve operations of a more or less secret character by the Treasury or by some other authority or authorised individuals as compared with the automatic process of the gold standard."

10,664. (*Chairman.*) What is that a quotation from?

10,665. (*Sir Purshotamdas Thakurdas.*) It is from a speech made by Mr. Goodenough, Chairman of the Barclay's Bank Limited?—I altogether fail to see the necessity for secrecy. Are not many of the operations which are now carried on in England in connection with the currency and which would be carried on even with a complete return to the pre-war system, secret in the sense that the deliberations which lead to the movement of the bank rate are secret. Those to my mind are implicit in any currency system.

10,666. Are the operations equally secret. The considerations may be secret but are the operations also secret? I mean when the operations take place they have to be done more publicly than in the case of an exchange standard?—Having made a decision

* *See* question 10,762 below.

it seems to me the actual operation is not secret under either system.

10,667. Do you think that as far as the automatic part of the systems is concerned, both sides are equally automatic or liable to be made equally automatic?—I should prefer to put it the other way; both are equally unautomatic, if one may use the word, both are managed.

10,668. Both run the same risk of management?—In different ways but they are managed in both cases and to about the same extent.

10,669. You don't think there is any substantial or serious difference in degree of the point up to which each can be managed?—I should like in answering that question to guard myself against being thought to hold that the exchange standard as it worked before the war was perfect. I do not think so.

10,670. We are thinking of the perfect exchange standard?—Then my answer is that I think the amount of management would be the same in both cases.

10,671. I forget if you told the Chairman in the course of his examination as to the directions in which you would like the pre-war exchange system in India to be perfected?—No, I do not think I did.

10,672. Would you mind telling us now because you have a big "If" in your reply. Would you mind telling us the directions in which you would like to see improvement?—Well I am afraid it is rather a big question. My own feeling is that the chief defect in the exchange standard as it existed before the War lay in the machinery for expanding and contracting the currency. What I think you need in that connection is a real power of expansion and contraction, that will work not only on Indian currency but on foreign currency. You will in that way bring into operation what in economic text-books is commonly known as the compensatory action of exchanges, a term with which I expect you are all familiar. I believe under the pre-war system there was not by any means a perfect method for expanding and contracting the currency, and that it did not operate in this two-fold direction upon prices. It is in that direction that I think the most important modifications need to be effected.

10,673. I then gather that your opinion is that in the pre-war exchange standard as it has been carried on till now there was and there has been too much management and manipulation, and you would like less of it and more of automatic action?—No, I do not think it can be expressed in that way. I do not think that the change that I would argue for involves less management: it only involves a somewhat different management.

10,674. More automatic action?—No, I do not think it is more automatic.

10,675. Then I would like to understand; I am afraid I have not been able to understand you clearly?—Well, I do not know how to explain what I mean in any way but this, that before the war the gold exchange standard existed without a satisfactory machinery for expanding the Indian currency in times of increasing demand, while at the same time operating on the gold reserves, say, of the Bank of England: that is to take one instance: the result was that while you were expanding rupee prices in India, you were not, as you ought to be also, acting on sterling prices in England.

10,676. That is the imperfection which you have indicated?—Yes.

10,677. You mean it was not adjusted to the price level in London?—Yes.

10,678. And you recommend perfection in that direction, by connecting the two systems in such a manner that with a depression in England a similar depression happens in India?—No, I do not think I would put it in terms of depression.

10,679. Would that not be the result of the change that you recommend?—No, I do not think so.

10,680. How would it benefit us?—I am trying to consider what is needed when you have a disturbance of relative price levels. Supposing you have good trade in India, you have a demand for more currency: that tends to raise prices in India when you put your new currency into circulation. Now the very circumstances that give rise to the need for a higher price level in India probably also mean that there is need for a reduced price level in England so as to establish equilibrium. If you draw your new currency which is coming into India in such a way as to be operative on English price levels, you will have a double force exerted instead of a single force. One of my suggestions is that the new currency which is coming into India operates on Indian price levels but it is not drawn, as it were, in such a way as to also operate on foreign price levels.

10,681. Are our reserves in any way operative on English price levels? Our reserves happen to be in England, but are they used for the purposes of English reserves in any way?—I think so, yes.

10,682. The gold standard reserve and the paper currency reserve are useful for the purpose of adjustments of price levels in England?—As I understand the machinery the gold standard reserve can be considerably increased without taking gold off the English market or taking it out of the gold reserve of England and so on.

10,683. Inasmuch as it is kept there it has a bearing on financial conditions in London; they are said to belong to India and indeed in some cases are said to have been earmarked for India?—Yes, that is so.

10,684. Even then they have an effect on the financial conditions in London?—My point is that they do not have sufficient effect on the price levels in England.

10,685. And you are seeking to make that effect complete?—More immediate.

10,686. To that extent you think that our exchange standard needs perfection?—Needs improvement, yes.

10,687. With a gold exchange standard as you recommend it, I understand you are not in favour of a gold currency at all?—I think it is an obvious waste of money.

10,688. Exactly: You think that India should carry on with rupees and the paper currency as she has been doing till now?—Well, I should think it would be an advantage if you substituted even a cheaper form of currency than silver rupees as far as possible.

10,689. Namely?—Some cheaper metal or paper to a larger extent.

10,690. And have a rupee somewhat depreciated from the present coin?—I do not know that I would agree with the word "depreciated." I would say "made of cheaper metal."

10,691. I use that word because I want to know if I understood you correctly?—If you made the rupee of some cheaper material than is used at present, it does not seem to me that it would depreciate it; it would depreciate its intrinsic value no doubt, but not its exchange value.

10,692. I was thinking of its intrinsic value? I believe you would still call it a rupee?—It would depreciate its intrinsic value, but that would be all to the good, would it not?

10,693. I am asking you whether you think it is feasible in view of the great efforts they made not to depreciate the rupee only seven or eight years ago: they went to all sorts of devices in order not to depreciate the intrinsic value of the rupee, did they not?—I agree, but I think the reason for that was not because a cheaper rupee would not have been preferable, on its merits, but because any attempt to substitute a cheaper rupee for a silver rupee at that time would have led to great political disturbance.

10,694. You think that the time for overlooking that fear is now ripe?—Do you ask me whether I think that at the present moment the silver rupee should be replaced by some cheaper coin?

10,695. Whether the time is ripe to think of replacing silver rupees by anything which is intrinsically worthless?—Yes; I would like to see it more largely displaced by notes.

10,696. The considerations which justified the Government of India in 1917-18 in opposing a depreciation of the rupee do not weigh with the same force to-day in your opinion?—I think what I said was not quite the same thing; I did not suggest that at present the silver rupee could be displaced by an aluminium rupee or some cheaper rupee without disturbing people and leading to unrest. I did not say that. What I said was that I felt it was desirable to displace the silver rupee as far as possible by money of a cheaper material.

10,697. What would be the difference between the two, a depreciated rupee and the rupee that you recommend?—My feeling is that you are gradually displacing the silver rupee to a large extent by issuing notes more and more.

10,698. Excuse me if I point out that the note is a promise to give silver on demand?—In so far as it is used as a substitute for rupees it is cheaper. But I understand in the case of the one-rupee note it was perhaps more expensive.

10,699. The one-rupee note is out of print any way; but the other paper currency has the confidence of the people because it is a promise to pay. You think that has nothing to do with it?—It has something to do with it, I think, yes; but I think that you can go on increasing the issue of the note instead of the rupee gradually and considerably without disturbing public confidence.

10,700. Gradually of course?—Yes.

10,701. How many years would it take, you think, before we can think of an inconvertible paper currency in India?—Inconvertible internally?

10,702. Inconvertible internally into the silver rupee. I ask that question because you use the word "gradually"?—I do not know, I am afraid.

10,703. You would not be prepared to say?—No.

10,704. Regarding delay in stabilising exchange, may I ask if the fact of an ineffective ratio being on the statute book is not a serious matter for the country, the ratio of 2s. ?—I should have thought it had no effect whatever.

10,705. Do you not think that when you can buy gold at 1s. 6d. (which is equivalent to Rs. 13-5-4 per sovereign) and when you cannot tender gold bullion or sovereign at the currency office except at Rs. 10 to the sovereign, do you not think that that is a serious handicap to the automatic expansion of currency in India?—It seems to me that that obviously is an anomaly; but it does not at present check the expansion of the currency. It shows that you have a law which is inoperative and useless and ought to be altered; but I do not think it checks the expansion of the currency in the country .

10,706. Is it not that which has allowed the Finance Member to have the power to which you refer, namely, to put up the rate to any point that he likes?—I do not think I suggested that the Finance Member could put up the rate to any point that he liked.

10,707. You suggested in reply to the Chairman, regarding your remarks in paragraph 5, when you were asked to explain what you had in your mind in saying "Provided that Government does not itself initiate changes from the prevailing exchange rate" or rather I understood you to say that unless Government raises the rate from 1s. 6d. to 2s. you thought that nothing should be done. That is what I was referring to?—What I said, or what I intended to say, was this: that Government has the power at present of modifying exchange; but I did not suggest that it had the power to put it up to any rate that it liked. Within limits, certainly, yes.

10,708. Which are the limits which the Government set before itself?—I do not know.

10,709. Which are the limits that they had at all before them?—I should say, judging by results, that the present object of the Government of India was to maintain the exchange rate more or less where it is; but I do not know; I have not the confidence of Government.

10,710. Supposing it had been pushed up to 1s. 7d. or 1s. 8d., the same thing could have been said?—All I have suggested is that Government would not be justified in pushing up exchange further than it now is.

10,711. And what is there to prevent them from doing so? Supposing the Finance Member wished to do so within the next six, or eight months, what is there to prevent him from doing so except his good will?—There is, I think, probably a good deal to prevent him pushing up exchange indefinitely and to a large extent. His power is a very limited one.

10,712. You think his power is a very limited one?—Yes.

10,713. With regard to the question of ratio, Professor Hamilton, I understood you to say that if the rate is put up to 1s. 8d. there will be all the disturbance which would be caused by unearned increments and unearned decrements. Would those disturbances be permanent or would they only be during the stage of transition?—I think they will be during the stage of transition undoubtedly.

10,714. What is the period you give in India for the stage of transition? How many years or months? When exchange is disturbed from one level to another, how long does it take for these various factors to adjust themselves?—I do not think you can possibly answer that, can you?. There are some long period contracts; for instance when the exchange was at about 1s. 10d. there was a contract entered into between the Secretary of State and the private railways to remit and receive funds at a rate of 1s. 10d. Everybody knows of course that the exchange value of silver fell very much from that point. That meant that for years and years the railways were gaining on their transactions in one direction and losing on another. Well, as long as those contracts continued, to that extent the disturbance continued. Probably for a large number of transactions the disturbing effect dies away very shortly after the actual movement has ceased.

10,715. The contract which you mentioned is of course a special contract?—Yes, but there are a lot of long period contracts in the financial dealings of a nation.

10,716. What do you think of the adjustment of wages with an appreciation of the rupee? Do you think that is required also to be adjusted in order to say that the mal-effects of the change had disappeared?—I think of course that in India as in other countries there is an obvious time-lag between wages and rising prices. But I think the adjustment takes place in India though irregularly and more slowly.

10,717. Is the time-lag the same?—It takes longer in India, I should say probably.

10,718. Would you look upon this mal-adjustment in wages which you say takes longer in India as a serious difficulty?—Regarded as a fact by itself in isolation?

10,719. Yes?—It is obviously an evil. But the same circumstances which lead to disparity between wages and prices to the detriment of the wage-earner may benefit other classes who are not wage-earners and it is extremely difficult for that reason to come to a final decision as to whether rising prices or falling prices for the moment benefit the people as a whole.

10,720. I was only asking you the general question. The other case I can only put to you when I have a concrete case to put to you. Now, under (*f*) of paragraph 9, you have this: "that would cause a severe depression in her silver industry and a depreciation of her own stocks of silver." Where you say "her own stocks of silver" do I understand you to mean the Government of India's stocks of silver or the stocks of silver of the people of India?—Neither. I mean the United States stocks of silver.

10,721. (*Sir Reginald Mant.*) Mr. Hamilton, why do you say that a gold exchange standard has greater safety than a gold standard with gold currency. I think that was the term you used?—My idea of its greater safety lies in this, that at times of severe strain which may be exerted on a currency system under a gold standard with a gold currency, you have in the country as one of the principal forms of money sovereigns or mohurs or whatever it may be, gold coins You have the custom of converting other forms of money into gold and so on. Now, when you displace the rupees as the chief media of exchange and substitute gold, then if a crisis comes about so that you have to go back on your gold and declare the notes inconvertible for example, I think the internal disturbance, the sense of distrust and unrest, would bo much greater than if you had a system such as the gold exchange standard where the silver rupee or a note based on silver in the first instance were the chief exchange media and any result of a crisis resulted in an alteration of the exchange rate, because the alteration of the exchange rate is not a fact which goes home to the minds of the people at all in the same way as, we will say, a sudden refusal to convert notes or rupees into gold, if that practice had become common throughout the country. So that I feel that, supposing you had a war or any kind of disturbance of a big kind which made it necessary for you to refuse complete convertibility, it would be less disturbing, particularly for a country like India if the derangement took the form, as it did during the war of a breakdown of foreign exchange rate than if it were to take the form of a sudden declaration that you could not convert your notes or your rupees into gold. That was one of the principal reasons why I thought one was safer than the other.

10,722. In both cases the system would have broken down, would it not?—Yes.

10,723. Then, if I understand you rightly, you consider that the results of the breakdown would be more serious in the case of the gold standard than in the case of the exchange standard?—Yes.

10,724. You said in reply to the Chairman that you were not in favour of opening the mints and introducing what has been called an optional gold currency, that is a limited amount without the obligation to convert notes into gold, because you consider it uneconomical and a compromise. I think those were the two objections you took to it?—Yes.

10,725. It would be less costly, would it not, than a full gold standard?—I am not sure that I feel convinced that it would be less costly. If you have a gold mint and a gold currency with any effective power on the part of the people to use those institutions, it would be possible to substitute gold and make that the chief medium instead of notes and rupees to an idefinite extent, and I do not see why the expenditure should be less than if you published a law to the effect that you had to give gold in exchange for notes at your banks. It would probably take place much more rapidly in the latter instance but I do not see that in the long run the effect should be any different. As I understand, it merely turns on this: what are the real obstacles which you are going to put in the way of the use of gold as currency? If those obstacles are effective, you retain your cheaper currency medium. If your obstacles are not effective, you don't retain it. If the opening of the mint is to give gold in exchange for rupees as people find it convenient, this is a real check upon the use of gold. If this is a tentative offer, well to that extent it is a half-way house and partly achieves the economy of the gold standard and partly sacrifices it. But unless you are moving towards a free gold currency, that is a currency to the fullest extent to which the people want it, and are prepared to use it, unless you are moving in that direction, then I can only regard the opening of a mint and the tentative offer to give gold in exchange for other forms of money as a partial sacrifice, perhaps. I think Cannan says: "Let India have a mint if it is merely a sort of toy with which they want to play." Well, if you are going to regard it in that light, then I think you ought to try to explain to the people of India that it is a toy and nothing but a toy.

10,726. That is much the same thing as what you mean when you call it a compromise?—Yes.

10,727. Well, I gather that you are prepared to compromise on the question of the gold standard. I think you said that there was a very strong sentiment for it?—Yes.

10,728. And that if the claims of sentiment outweighed the economic advantages of the exchange standard you would then advocate gold currency?—Yes.

10,729. Well, does not the half way house suggest itself as a reasonable compromise, as a less costly measure and going a certain way in the direction of meeting that sentiment?—Undoubtedly, yes. I think so.

10,730. Therefore, in calling it a compromiso you are not really condemning it?—No, I am not condemning it. But I would only say that I would rather try and convince the people of India that they were moving in the wrong direction. If they cannot be convinced, then I would say, by all means compromise.

10,731. (*Sir Alexander Murray.*) Mr. Hamilton, I think you indicate that it would be advisable for Government to do nothing that might cause exchango to break away from the prevailing rate?—Yes.

10,732. Now, was it Government action, or rather Government inaction that enabled the rate to rise to 1s. 4d.? Does the same argument you use for 1s. 6d. apply to 1s. 4d.?—Certainly.

10,733. And you merely make that statement because you accept the prevailing rato for the reason that it is the rate at the time we happen to be sitting. If we happened to be sitting a year ago, would you make the same statement?—I am afraid I am there plunging into a question of which I am very largely ignorant. But I have a feeling that a year or two years ago there were reasons why it was desirable to deflate, quite apart from the rate of exchange. I do not know whether I am right or wrong. But my impression is that then the banks were overladen with loans which they could not very easily recover; that part of the demand for additional currency was due to the fact that their reserves had been to some extent absorbed in that way. I am only guessing, but I feel that there were reasons why it was desired to put a certain check on the expansion of the currency at that time in order to restore a healthier monetary situation and, quite apart from the effect it might have on exchange.

10,734. I am putting it this way that wo have had it put to us. The Government might have intervened at 1s. 4d. when the exchange came to the rate of 1s. 4d. gold, just as they have intervened now to prevent it from going above 1s. 6d. gold. And you give a reason which has already been given by some people, that it was on account of the stringency that Government did not intervene to stabilise at 1s. 4d. but went on expanding the currency. You said to the Chairman that you would prefer adopting a policy of "wait and see" because you were afraid that fluctuations in price levels in other countries might show that the present rate might not be the one to stabilise at. Now, in October 1924, which is the date at which exchange was at 1s. 4d. gold, I find that the index numbers of wholesale prices in India—the index number in India was 181, in the United Kingdom it was 170, and in the United State of America it was 152, the difference between India and the United States of America being 30. Now in view of the reason you gave to the Chairman

for wishing to wait and see, I suppose that also was a good reason for not stabilising in October of last year?—I think that supports the argument.

10,735. If so, to take the index number of wholesale prices, the latest figures that we have available, I am going to give you the figures of the countries that have gone back to the gold standard. In the United Kingdom the latest figure for the index number I have got is 156, in the Netherlands it is 155, in Sweden it is 154, in Canada it is 160, in the United States of America it is 160, and in India it is I think 157?—Are those figures reduced to a common basis?

10,736. We are taking 100 as being the index number for 1914, the pre-war index number. Well now in view of that fact?—There does seem to be an extraordinary similarity.

10,737. Practically an increase from the pre-war level in wholesale prices in all those countries of from 57 to 60 per cent. Is it not your view that the conditions justify stabilization round about the present level at the present time?—No I do not think so, because I do not know how far we can accept those figures, and even so I do not think it follows that the basis of the prices in the different countries is necessarily stable. Let me put it this way: supposing at the moment, take Sweden and England, you have a rise of prices exactly the same in the two countries as compared with 1913. It would seem that their relative prices were normally stable. It does not seem to me to follow that this is so. Supposing for example that the effect of bringing about a certain price level in England is to throw out of employment 2 or 3 million people, and the effect of bringing about that price level in Sweden is exactly the reverse, i.e., to absorb a lot of people. That might therefore result in this, that you have got an equilibrium partly in your price levels but you find an inequilibrium in your industrial conditions, and in order to bring about a proper basis of international exchange you must not only have an equilibrium of price levels but you must have your conditions of work equal. In order to absorb 2 or 3 million people, you must reduce prices, and that would react on the other.

10,738. Sitting here as a Commission we have to make up our mind one way or the other and make a recommendation. Such a recommendation could only be based on the evidence that we get before us in the shape of statistics or other information. Now can you furnish us with anything over and above these index numbers that will enable us to arrive at the conditions prevailing in other countries, besides the wholesale price levels prevailing in other countries?—I do not think that I could refer you to documents. I should certainly suggest a preference to certain considerations which I have already suggested, the volume of employment or unemployment, the apparent depression or otherwise of industry, the demand for or rather the state of credit, the healthiness or unhealthiness of credit organizations, all those considerations ought to be taken into account.

10,739. We are not discussing the Keynes policy at present. The point at issue was whether we should go on to a gold standard or a gold exchange standard and later on to a gold standard and to stabilize at a particular rate, prices will then move in all gold standard countries in unison. Should we consider prices in the different countries at the present moment, and if you find prices more or less on a parity taking 100 as the pre-war level, does that not really indicate to you that we should at this moment stabilize?—So far as it goes, certainly.

10,740. It so happens that the other countries to which I have referred have gone back to the pre-war gold parity, the United Kingdom, Netherlands, Sweden, Canada, the United States of America. Why should we not go back to the old pre-war parity? I mean we are now at 1s. 6d., not on a 1s. 4d. basis. Do you suggest that because our prices now happen to be on a level with those of other countries that have gone back to the pre-war working gold parity, that we should stabilize at a rate that is not a pre-war rate in a sense?—I do not myself see any advantage in returning to the pre-war rate.

10,741. Why is it that France and Italy are now struggling to get back to the vicinity of the pre-war parity?—The chief reason I take it is the difference of price level, that they no doubt have a currency which maintains prices, a level which is inconsistent with the pre-war parity, that is the difficulty, and also of course a form of currency which is internationally exchangeable.

10,742. It has been suggested to us that all the adjustments are not complete, and in particular wages have been referred to. As you are aware, wages on the Bombay side have not come back in any way in spite of the fact that exchange has moved up. Now can you offer any remarks in that connection?—The obvious answer I think would be either that Bombay wages should be levelled up or that it would be a saving if you bring down prices to the previous level.

10,743. (*Chairman.*) Two suggestions which would equally be acceptable to Bombay?—It seems to me a sort of mathematical answer. Well personally I should say, go on striking until the Bombay mill-hand gets better wages.

10,744. (*Sir Alexander Murray.*) Well as a matter of fact we have been given a figure that shows that if 100 is taken as the pre-war index number for wages in Bombay, to-day's index number is 231 showing an increase in wages of 131 per cent. On the other hand, taking the cost of living in Bombay we have been given figures which show, taking the pre-war index number as 100, that the cost of living to-day in Bombay is 153. Now the cost of living has gone up 53 and wages in Bombay have gone up 131 per cent. Have you any remarks in that connection?—It simply means that your two propositions are incompatible. Your first proposition was that it was well known that Bombay wages had not risen.

10,745. I did not say that?—I thought that was your first point.

10,746. I only say that the adjustments have not taken place, and that wages have not gone down although exchange has gone up to 1s. 6d.,—the adjustments are not complete?—I beg your pardon. I understood you to say that it is well known that the Bombay worker was not receiving a rate of wage which had fully responded to the higher price level.

10,747. My question was that if exchange goes up, other conditions in India must respond to that, and one of the adjustments that has not been completed is that wages have not gone down in keeping with the increase in exchange?—My impression was rather the other way.

10,748. The figures as they have been given to us are that wages in Bombay have gone up 131 per cent., and the cost of living has gone up 53 per cent. Have you any remarks in that connection?—I would say, as I said before, that if that is so regarding that limited interest alone, justice would be done apparently by returning to a lower rate of exchange. We are working in this manner, that the lower rate of exchange would imply an inflation of prices, in other words a rise in the cost of living, in other words bringing the cost of living into proper relation with the existing wage rate.

10,749. You suggest that because the workers in Bombay have got 131 per cent. increase in wages, that therefore the cost of living should be increased also? Is it not the other way about?—Certainly that might be an adjustment. You mean that the wages of the mill operatives ought to be reduced? But I do not think myself that it would be a permanent basis for decision on the part of a Currency Commission that a certain limited class of wage-earners are getting unduly high wages and

therefore the exchange rate should be altered so as to bring back the proper wage level.

10,750. (*Sir Maneckji Dadabhoy.*) You have advocated a policy of inaction for some time on the ground that "with the progressive settlement of the currency problems in other countries and when England has become finally adjusted to the gold standard the course of world prices will be less variable and more obvious." Do you anticipate a very early settlement of this question in Europe?—I should say myself that the next year or two is likely to see a very marked progress in that direction.

10,751. And you think that India ought not lead?—My impression is that probably stabilization at the present time could be effected successfully, but I say that the number of disturbing elements at work are still sufficiently grave in their possible results to make it wise for us to wait a little longer.

10,752. But there is an element of indefiniteness about it?—Undoubtedly, yes.

10,753. It may be five years, it may be ten years or it may be fifteen years?—No; I was not thinking as long a period as that. After all, the next year or two is likely to see a very general settlement of international indebtedness, and a rapid adjustment of wages, and so on.

10,754. And you say this policy of waiting would affect the investment of foreign capital in India?—Undoubtedly; it is likely to affect it to some extent; the uncertainty as to the ultimate rate at which exchange would be stabilised might have some effect.

10,755. And as such, it would be prejudicial to Indian interests?—Yes; unless your object is to exclude foreign capital.

10,756. That is not mine. You stated that when Germany adopted the gold standard in 1873 it had to acquire 50 millions of gold at the initial stage. Will you please let me know how long it took to acquire that quantity?—I am speaking entirely from memory and it is many years since I had direct access to the source of my information; but I think it was acquired within a short period, about a year or less; but I am afraid I cannot speak with certainty; but it was certainly within a short period, say a year or two.

10,757. Can you give me any reference about this?—I could if you allow me to look it up. I cannot say off-hand; I will try.

10,758. Did this enormous acquisition of gold cause dislocation in the United States or England or any other part of the world in the price of precious metals?—I think I could give you that at once. It may be wrong; but my impression is that W. T. Lyton in his "History of Prices" refers to that and he mentions it as one of the important factors bringing about the appreciation of gold and the fall of prices which of course everybody knows. I am not quite sure but I think he mentions it.

10,759. (*Sir Rajendranath Mookerjee.*) I understand from your answers to the Chairman that you entertain some doubt as to the trade balance being in favour of India?—Yes.

10,760. Having regard to the fact that India has now acquired the right of imposing fiscal duties and is also gradually progressing in industrial development, don't you think that the imports would greatly be reduced and exports increased as years go on?—If I understand your question, it seems to me that it leads to the answer that apart from a quite short period disturbance, the old doctrine holds good that the value of imports and exports, taking everything into account, must be equal and that it is quite impossible for the value of imports to fall and the value of exports to increase. You may be balancing by importing gold. But it seems to be quite impossible that a country can really increase its exports and diminish its imports. That is why I say that the extent of balance of trade is relative, because for a reasonable period of time, the balance of trade must be equal in every country.

10,761. Theoretically?—And practically. In Japan where they were always arguing for the securing of what they called a favourable balance of trade, they could not succeed in doing so.

10,762. (*Chairman.*) Just before we close, I wish to refer to the interesting quotation* from Mr. Goodenough which was made use of by Sir Purshotamdas Thakurdas. I thought, erroneously, when listening to the quotation, that Mr. Goodenough was contrasting a gold exchange standard with a full gold standard. I see on reference to the actual text of the speech that he makes use of these words: "such a scheme would involve operations of a more or less secret character by the Treasury, or by some other authorised individuals, as compared with the automatic process of the gold standard." The gold standard referred to as the British standard is, in effect, the exchange standard, and the "scheme which would involve operations of a more or less secret character" is the scheme of stabilising internal prices, in other words, a currency based upon an index number. Sir Purshotamdas has unfortunately had to leave; but I put that to him and he agrees that the quotation really is an argument against a managed currency in the sense of the sort of currency advocated by Professor Keynes and not against an exchange standard currency of the sort which we were discussing earlier to-day. Is there any matter on which you desire to amplify any of the topics of our discussion?—No.

10,763. (*Chairman.*) The Commission is very much obliged to you for your assistance to-day and for your memorandum.

* *See* question 10,663 above.

(*The witness withdrew.*)

(*The Commission concluded its sittings in India.*)

APPENDIX.

SUPPLEMENTARY STATEMENT SUBMITTED BY MR. C. J. HAMILTON, M.A., UNIVERSITY PROFESSOR OF ECONOMICS, PATNA.

1. Successive enquires into the Indian Currency System have, since the Gold and Silver Commission of 1886, accepted the principle that, whatever conclusions are arrived at, they should be derived solely from a consideration of Indian interests. I fully endorse this principle. Moreover, I think the aim of currency reform should be to establish a system that would be free from any special difficulties that might arise in consequence of India becoming a self-governing Dominion.

2. At the present time it seems outside the bounds of practical politics to consider possible currency systems other than the Gold Exchange Standard and the Gold Standard. Thus it seems unnecessary to discuss the Silver Standard, or the Tabular Standard. But I should like to associate myself strongly with those economists who regard the so-called automatic gold standard as distinctly inferior to one that would secure a greater immunity from large price fluctuations.

3. There is no doubt that for some time past the majority of Indian publicists, politicians, and economists have strongly preferred a Gold Currency and Standard to an Exchange Standard with a token rupee as unlimited legal tender and, on the whole, I think the Government of India has shared this opinion. On the other hand, the weight of authority of English economists and of financial advisers to the British Government has been opposed to the adoption of the former system for India. I feel confident from a careful study of the history of these discussions that this difference of opinion has been due, not to any conflict of interest between England and India in which English authority has preferred English interests, but to a different interpretation of facts and arguments relative to India's advantage.

4. I think that, unless there can be shown to be a decided balance of advantage in favour of the Exchange Standard, the Gold Standard should be preferred in deference to Indian sentiment, although I have already asserted my opinion that material economic advantage should not be sacrificed to sentiment.

5. In arriving at a decision as to the real balance of advantage it may be useful to examine briefly certain leading arguments commonly advanced against the Exchange Standard.

(*a*) that it is "artificial," "managed," and, therefore, liable to suffer from manipulation and may easily break down.

Behind these rather vague terms lie the following notions:

(i) that reserves are kept to an undue extent in England, to the detriment of the Indian short loan market.

(ii) that there is difficulty and risk attaching to the calculation of the amount of the reserves.

(iii) that there is imperfect adjustment of the supply of currency to the demand, causing either redundancy or stringency.

(iv) that the currency difficulties of the War and post-war periods were in some way due to the Gold Exchange Standard, particularly the loss associated with the Reverse Councils operations.

In England the characteristic feature of the currency and banking systems prior to the war was the almost complete separation between the provision of legal tender money on the one hand and the supply of representative money and the discharge of international indebtedness on the other. Only in times of great crisis was "management" of the legal tender currency required through the power to suspend the Bank Act. Normally all the manipulation and management was thrown on the banking system. In India, for reasons that are apparent in the history of her monetary system, Government has been largely responsible for both functions and the element of management, often popularly attributed to the nature of the Indian currency system, is mainly the inevitable counterpart of the banking function.

It is scarcely conceivable that, for a long time to come, the elastic element in the medium of exchange in India should be almost entirely, as it is in England, bank money. It must consist of legal tender currency. Hence, within the currency system there must be found a place for the expansion and contraction, the substitution of one form for another, of the money of the country. This introduces management; whether the currency system is the Gold Exchange Standard, or the so-called automatic Gold Standard. A large part of the management might be handed over to the banks, but it would remain part of the currency system in the broad sense. If the implications of this truth were fully understood I think that many popular objections to the Exchange Standard would disappear.

6. A central objection to the Exchange Standard advanced by many in this country is based on the argument that it fails to command confidence and that this checks the investment of foreign capital and leads Indians to hoard their wealth in gold and jewels instead of depositing it in the banks.

A fluctuating exchange rate may check the investment of foreign capital. With a stable exchange rate the element of confidence will depend, in the case of foreign investors, upon the resources of the country and the Government which rules it, rather than upon the existence of a gold standard and currency or an exchange standard.

Internally the matter may be different, because, whether or no the exchange standard is inherently sound, there may be a wide-spead popular belief on the part of rich men that it is risky, with such a currency, to invest in such a way as to give a claim merely to a representative token money.

I do not think, however, that the habit of hoarding rests to any considerable extent upon a distrust of the rupee. It is rather the result of long habit, of social custom, of prestige, and the absence of banking facilities. Why should a man with hoarded wealth transfer his hoards to banks upon the adoption of a gold standard and currency when he would not do so otherwise?—With an exchange standard he can obtain gold when he wants it at the same cost as under a gold standard. The value of his bank deposits are as much gold values in the one case as the other. It may be said that with a gold currency and an open mint people could more easily convert their gold ornaments into currency in time of need. But, under the pre-war exchange standard there was nothing to prevent Indians from hoarding in the form of sovereigns if they wished. It is true that if these sovereigns were then deposited in banks there was no legal right to demand sovereigns on withdrawal. But with a free gold market deposits repaid in rupees could be turned into gold at a less cost than the loss of interest arising from hoarding.

7. The two great arguments for a Gold Exchange Standard are based on the contention that it is considerably cheaper and that it is safer. These two considerations are not entirely distinct. It has often been laid down in pre-war days that the people of India should be given the form of currency they demand. Sovereigns were, in practice, freely obtainable. If the pre-war practice were revived it is not certain that the actual use of gold currency would be very much greater with an automatic gold standard and currency than under the system as it was in 1913. To make rupees limited legal tender would probably lead to a greater use of gold for hoarding of considerable sums. There would therefore be a waste of resources on this account. It is also certain that a larger reserve of gold would be required than under a gold exchange system. The chief difference, as I understand, lies in the fact that an exchange standard implies the power to withhold gold in case of need without an evident and open departure from strict obligation. In the case of a gold standard it implies recourse to obvious inconvertibility. The reactions to the former are likely to be far less serious than to the latter. It seems to me that the risk of an external gold drain, provided the rate of exchange is to be kept constant, is the same under either system. But with an automatic gold standard there is but one consequence of a strong adverse balance of claims: an efflux of gold or of promptly marketable command over gold. With an exchange standard there is a double safety valve. The exchange rate may be allowed to alter somewhat beyond the gold point in case of necessity. The risk of an internal drain is of a twofold character. There is the initial risk that the adoption of legal convertibility together with the limitation to the legal tender character of the rupee would lead to a large conversion of silver. This risk seems to me sometimes to be exaggerated. There is also the recurrent risk that conversion would be demanded in large amounts in times of political and social crisis. This danger I think might be considerable.

For the reasons that I have given the exchange standard appears to me to offer manifest and important advantages over the gold standard and currency. These reasons appear to me sufficiently strong to justify the retention of the exchange standard even in the face of opposition from a popular sentiment that, in my opinion, is likely to weaken very considerably in the course of the near future.